

SECTION 4000

GENERAL LEDGER ACCOUNTS

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4000 GENERAL LEDGER ACCOUNTS

4010 BASIC ACCOUNTING

4010.1 PURPOSE OF THE GENERAL LEDGER

The General Ledger (Form FCU 102) is the book of final entry. All other records, regardless of the form they take, summarize postings for or are subsidiary to the General Ledger. It provides a summary record of all transactions which affect the assets, liabilities and ownership of the credit union. It also serves as a source of information from which the financial statements are prepared.

4010.2 OPENING THE GENERAL LEDGER ACCOUNTS

As the need arises accounts should be opened in the General Ledger in accordance with the account names and numbers which are shown in the Chart of Accounts. The name of the credit union and the name and number of the account should be written in the spaces provided. The General Ledger pages should be filed in a binder in numerical order by account number. Only one account should be opened on each General Ledger sheet. When the first page is filled with entries, the same account should be continued on the reverse side.

Figure 4-1: Illustration of a Completed General Ledger Account (Form FCU 102)

OUR FEDERAL CREDIT UNION										ACCOUNT NO. 701																	
GENERAL LEDGER										NAME OF ACCOUNT LOANS																	
DATE	EXPLANATORY REMARKS	FOLIO	DEBIT				CREDIT				DEBIT BALANCE				CREDIT BALANCE												
JUNE 30		J.C. 1			4	3	2	0	0			3	1	2	7	5			4	0	0	7	2	5			
JULY 31		J.C. 3			7	2	5	3	0	0			1	4	4	2	7	5			9	8	1	7	5	0	
AUG 31		J.C. 5			5	0	6	0	0	0			4	6	6	9	7	5			1	0	2	7	7	5	
SEPT 30		J.C. 6			4	0	2	5	0	0			5	6	5	7	7	5			8	5	7	5	0	0	
OCT 31		J.C. 8			5	1	0	0	0	0			3	5	6	2	5	0			1	0	1	1	2	5	0
NOV 30		J.C. 11			6	3	5	0	0	0			4	2	1	6	2	5			1	2	2	4	6	2	5
DEC 31		J.C. 13			7	4	0	0	0	0			4	4	3	7	7	5			1	5	2	0	8	5	0

4010.3 SOURCES OF POSTINGS FROM BOOKS OF ORIGINAL ENTRY

All postings to the General Ledger should be made directly from the Journal and Cash Record as described in the following section.

4010.4 OPENING THE JOURNAL AND CASH RECORD

To open the Journal and Cash Record, the name of the credit union, the month and the year should be written in the spaces provided. Before entering any transactions, enter "1" as the page number on each side of the first double page which is in view when the binder is open. Subsequent double pages should be numbered consecutively with the same number on both double pages.

4010.5 PURPOSE OF THE JOURNAL AND CASH RECORD

The Journal and Cash Record (Form FCU 101) is the book of original entry for all federal credit unions. It provides a means by which all financial transactions and adjustments are gathered together in the order in which they occur for posting to their respective General Ledger accounts. To do this efficiently, transactions affecting the most active accounts are assembled in special columns, the totals (debit totals must equal the credit totals) of which are posted at the end of each month. In addition to the special columns, "Miscellaneous" columns are provided to record entries to the less active accounts. The items entered in the "Miscellaneous" columns should be posted individually to the appropriate General Ledger accounts and dated as of the day the transaction occurs. They may be posted to the General Ledger on the day they are entered in the Journal and Cash Record or at the end of the month.

When the volume of monthly transactions is large, recapitulations may be prepared showing total debits and total credits pertaining to each General Ledger account affected by entries in the "Miscellaneous" columns, and a single debit and credit posting should then be made to each account based on the totals of the entries. When entries in the "Miscellaneous" columns are recapitulated for posting to the General Ledger, the detailed recapitulation should be entered following the last line of the Journal and Cash Record for the month as follows:

<i>Miscellaneous</i>		
<i>Acct. No.</i>	<i>Dr.</i>	<i>Cr.</i>
113		\$62.00
151		26.00
420	\$80.00	30.00
719	78.00	300.00
738	51.43	62.00
743		8,000.00
801		25.83
	<hr/>	<hr/>
	\$209.43	\$8,443.83
	<hr/>	<hr/>

The totals shown at the foot of the recapitulation need to agree with the corresponding totals of the "Miscellaneous" debit and credit columns of the Journal and Cash Record.

When transactions occur frequently in an account for which special columns are not provided, one of the blank columns can be headed up with the name of the account and used to record the transactions. If both debits and credits to the account are numerous, two of the blank columns may be used, one for debits and the other for credits. The total of these columns should then be posted to the General Ledger account at the end of the month in the same manner as the other special columns are posted. Where special columns in excess of five are needed, the Journal and Cash Record (Continuation Sheet) (Form FCU 101A) can be used. This form provides 12 additional blank columns. When this form is used, it is interleaved or placed between the sheets of the Journal and Cash Record form.

4010.6 ILLUSTRATIVE ENTRIES

Entries illustrating the various types of transactions which occur in the operation of a federal credit union are shown in this manual. These illustrations show: (1) debits and credits to the accounts affected, (2) name of the accounts, (3) General Ledger account numbers, and (4) amounts of the entries. These illustrative entries can be used as a guide for entering transactions in the Journal and Cash Record and for posting such entries to the General Ledger. Each entry in the "Miscellaneous" columns of the Journal and Cash Record need to be adequately explained in the column headed "Account".

DAILY CASH RECEIVED SUMMARY VOUCHER

Cash received June 4:

Dr. - Cash (Acct. No. 731)	\$461.75
Cr. - Shares (Acct. No. 901)	\$459.25
Cr. - Other Fees and Charges	
(Acct. No. 131)	2.50

PAYMENT FOR INITIAL SUPPLIES

On June 4, Check No. 1 was issued to Cooperative Supply Company for the initial supplies following the credit union's organization.

Dr. - Unamortized Organization	
Costs (Acct. No. 768)	\$26.43
Cr. - Cash (Acct. No. 731)	\$26.43

DISBURSEMENT FOR A LOAN

On June 7, Check No. 2 was issued to John Jones for a loan:

Dr. - Loans (Acct. No. 701)	\$42.00	
Cr. - Cash (Acct. No. 731)		\$42.00

ESTABLISHING PETTY CASH FUND

On June 7, Check No. 3 was issued to Petty Cash to set up the Petty Cash Fund:

Dr. - Petty Cash (Acct. No. 738)	\$5.00	
Cr. - Cash (Acct. No. 731)		\$5.00

DAILY CASH RECEIVED SUMMARY VOUCHER

Dr. - Cash (Acct. No. 731)	\$299.61	
Cr. - Shares (Acct. 901)		\$277.00
Cr. - Loans (Acct. No. 701)		20.00
Cr. - Interest on Loans (Acct. No. 111)36
Cr. - Other Fees and Charges (Acct. No. 131)		2.25

PAYMENT OF EXPENSE

On June 21, Check No. 12 was issued to XYZ Surety Company in payment of surety bond premium:

Dr. - Insurance (Acct. No. 265)	\$8.00	
Cr. - Cash (Acct. No. 731)		\$8.00

DISBURSEMENT FOR A REFINANCED LOAN

On June 28, Check No. 48 for \$116 was issued to John Jones for a loan. This check is for a \$150 new loan after deducting the balance of \$34.00 which was due on a previous loan. (The accumulated interest was paid in cash and recorded with the other cash receipts):

Dr. - Loans (Acct. No. 701) (Note #45)	\$150.00	
Cr. - Cash (Acct. No. 731)		\$116.00
Cr. - Loans (Acct. No. 701) (Note #1)		34.00

DISBURSEMENT FOR A SHARE WITHDRAWAL

On June 30, Check No. 49 was issued to Henry J. Phillips for a share withdrawal:

Dr. - Shares (Acct. No. 901)	\$20.00	
Cr. - Cash (Acct. No. 731)		\$20.00

TRANSFER FROM SHARES TO LOANS AND INTEREST

On June 28, \$10.00 was transferred from the shares of A. B. Duncan as payment on his loan and interest:

Dr. - Shares (Acct. No. 901)	\$10.00	
Cr. - Loans (Acct. No. 701)		\$9.85
Cr. - Interest on Loans (Acct. No. 111)15

Entries of these and other transactions to the Journal and Cash Record are illustrated in Figure 4-3.

4020 GROUPS OF GENERAL LEDGER ACCOUNTS

4020.1 PURPOSE OF SIX MAIN GROUPINGS

The General Ledger accounts are grouped and numbered to make identifications easy and to simplify the preparation of trial balances and financial statements. The first number to the left indicates the main group to which the account belongs. These groups are designated based on the first number as follows:

1. Operating Income Accounts (100 Series)
2. and 3. Operating Expense Accounts (200-300 Series)
4. Non-Operating Income (Expense) Accounts (400 Series)
7. Asset Accounts (700 Series)
8. Liability Accounts (800 Series)
9. Equity Accounts (900 Series)

The account numbering order set forth above with income and expense groupings shown before asset, liability and equity groupings, is purposely designed to facilitate the processing of credit union transactions when data processing systems are used. Where the credit union's records are maintained on a manual basis, the sequence arrangement of the six main groupings of the accounts as shown in the manual should present no particular problem.

Figure 4-2: Illustration of a Completed Journal and Cash Record (Form FCU 101)

OUR
FEDERAL CREDIT UNION

Page No. 1

Month of June 19 X1

JOURNAL AND CASH RECORD

LINE	DATE	ACCT NUMBER	NAME OR ITEM	CHECK NUMBER	CASH		DATE CHECK PAID	SHARES		NOTE NUMBER	LOANS		PAGE								
					RECEIVED DR	PAID OUT CR		WITHDRAWN DR	PAID IN CR		LOANED DR	REPAID CR									
COL 1	COL 2	COL 3	COL 4	COL 5	COL 6	COL 7	COL 8	COL 9	COL 10	COL 11	COL 12	COL 13	COL 14								
1													1								
2	4		Summary		461	75			459	25			2								
3			Cooperative Supply	1		26	43	X					3								
4	7		Summary		500	25			498	00			4								
5		3	John Jones	X 2		42	00	X			42	00	5								
6			Petty Cash	3		5	00	X					6								
7	17		Mary Jones	X 4		200	00	X			200	00	7								
8		15	James K. Evans	X 5		100	00	X			100	00	8								
9		7	A.B. Duncan	X 6		25	00	X			25	00	9								
10	11		Summary		550	00			548	00			10								
11	14		Summary		359	00			327	00		28	75 11								
12	15		Summary		299	61			277	00		20	00 12								
13		20	Henry J. Phillips	X 7		60	00				60	00	13								
14	17		Cooperative Supply Co.										14								
15													15								
16	21		XYZ Surety Co.	X 12		8	00	July					16								
17													17								
18													18								
19	28	3	John Jones	X 48		116	00	July			150	00	34 00 19								
20		7	A.B. Duncan (Shares to loan)						10	00		9	85 20								
21	30	20	Henry J. Phillips	X 49		20	00	July	20	00			21								
22					4	661	97	4	309	43	70	00	4	450	98	4	320	00	312	75	22
23														23							
24														24							
25					4	661	97	4	309	43				25							
26						70	00	4	450	98				26							
27					4	320	00		312	75				27							
28						23	35		16	74				28							
29						56	43		26	50				29							
30									15	85				30							
31					9	132	25	9	132	25				31							
32														32							
33														33							

Figure 4-2: (Continued)

OUR																				Page No. 1	
FEDERAL CREDIT UNION																				Month of June 19 X1	
JOURNAL AND CASH RECORD																					
1	INTEREST ON LOANS CR	COL 14	FEE & CHARGES CR	COL 15	RECOV- ERIES CR	COL 16	COL 17	COL 18	COL 19	COL 20	OPERATING EXPENSE CONTROL		ACCOUNT	COL 23	24	MISCELLANEOUS		26	27		
											ACCT. NO.	AMOUNT				DR	CR				
2																					
3			2	50																	
4			2	25									Unamort. Org.	X		26	43				
5													Cost 768								
6													Petty Cash 738	X		5	00				
7																					
8																					
9																					
10			2	00																	
11			75	2	50																
12			36	2	25																
13													Stat. & Supp. Accts.								
14												264	15	85	Payable 801	X			15	85	
15																					
16												265	8	00	Surety Bond Premium						
17																					
18																					
19																					
20			15																		
21																					
22		16	74	26	50							23	85			56	43	15	85		
23																					
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31																					
32																					
33																					

4-8

Form FCU 106 (REV 67)			
Service		Credit/Voucher	
Federal		CASH RECEIVED VOUCHER	
ACCOUNT NO. _____		Summary _____	
DATE	Aug. 2	19	75
REC'D			
FROM _____		Summary Voucher	
		DOLLARS	CENTS
SHARES		112	50
ENTRANCE FEES		3	90
LATE CHARGES		8	69
INTEREST/LOANS			
LOANS		87	50
TOTAL		212	50
RECEIVED BY: Mgr.			
POSTED	X		
CREDIT & PASSBOOK BALANCES			
SHARES \$			
LOANS \$			
CHECKS CROSSED SUBJECT TO COLLECTION			

[illegible][illegible][illegible]

Figure 4-3: Illustration of Completed Transactions for Cash Receipts and Disbursements and Their Related Accounting Records (Continued)

CASH DISBURSEMENT ILLUSTRATED

Form FCU 107

SHARES			CASHIER		
DATE	PAID IN	WITHDRAWN	BALANCE	DATE	THROWN
1975					
Aug. 2	10.00		10.00	25	Ha
9	10.00		20.00		Ha
16	10.00		30.00		Ha
23	10.00		40.00		Ha
30			15.00		Ha

Form FCU 106A

JOURNAL VOUCHER		Service		C.U.	
ACCT NO.	178	NAME	R. G. Black	DATE	8-30-75
25	00	CREDIT	25.00		
		LOANS			
		INTEREST			

CHECK NO. **135** AMT **25.00** APPROVED OR AUTHORIZED BY _____

ENTERED JCR, **X** POSTED _____ RECEIVED BY **R. G. Black**

Pay to the Order of **R. G. Black**

Twenty-five and no/100 Dollars

Carl White by **Harry Ames**

President Treasurer

Form FCU 101

Anytown, Indiana August 30 19 75 No. 135

Service Federal CREDIT UNION

JOURNAL AND CASH RECORD

ACCT	COL. 1	COL. 2	COL. 3	COL. 4	COL. 5	COL. 6	COL. 7	COL. 8	COL. 9	COL. 10	COL. 11
1	30	178			135	25.00					
Total for Month											

Form FCU 103 - REV. 53

Service CREDIT UNION

INDIVIDUAL SHARE AND LOAN LEDGER

NAME **R. G. Black** ADDRESS **Anytown, Indiana**

NOTE RECORD		SHARES LEDGER		LOANS LEDGER	
NOTE NUMBER	DATE LOANED	AMOUNT	DATE OF 1ST PAYMENT	AMOUNT OF 1ST PAYMENT	DATE OF 1ST PAYMENT

SHARES		LOANS	
DATE	POST REF.	DATE	POST REF.
1975			
Aug. 2			
9			
16			
30			

Form FCU 102

Service Federal CREDIT UNION

GENERAL LEDGER

1975

DATE	EXPLANATORY REMARKS	FOLIO	DEBIT	CREDIT	BIT BALANCE	CREDIT BALANCE
June 30	J.C. 1		710.00		438.00	98
July 31	J.C. 3		154.00		681.34	48
Aug. 30	J.C. 5		73.00		952.33	73

4020.2 RELATIONSHIP OF GROUPINGS TO FINANCIAL REPORTS

The main groupings of General Ledger accounts are designed to easily distinguish the asset accounts from the liability, equity, income, and expense accounts and vice versa. The first three groupings (first digits 1 through 4) relate primarily to preparation of the Statement of Income (FCU 109B). The last three groupings (first digits 7 through 9) relate to the preparation of the Statement of Financial Condition (FCU 109A) and, later to the Statement of Reserves and Undivided Earnings (FCU 109D). Accounts in all groupings affect the preparation of the Statement of Cash Flows.

4020.3 SUBORDINATE GROUPINGS WITHIN MAIN CLASSIFICATIONS

Within the main classifications of General Ledger accounts (first digits 1 through 9), the second digits identify subordinate groupings of accounts generally in conformance with the groupings of individual accounts as required for separate captions on financial reports. The third digits are used for individual accounts related to each subordinate (second digit) grouping. This arrangement is also provided to permit flexibility in the event it later becomes necessary to prescribe additional account classifications.

4020.4 USE ONLY NEEDED ACCOUNTS

Each credit union need only use the particular General Ledger accounts required for recording its financial activities.

4020.5 USE OF ADDITIONAL ACCOUNTS

Any credit union may establish additional General Ledger accounts required by it for the classification of its financial activities. For example, where several checking accounts are maintained for current cash deposits, separate accounts can be established in the 730 series. Likewise, where additional expense categories are needed to provide identification of classes of expense in more detail than provided for in the chart of accounts, new accounts may be established within the appropriate subgroupings shown in the chart.

4020.6 NUMBERING OF GENERAL LEDGER ACCOUNTS

The Chart of General Ledger Accounts set forth in this manual has been assigned numbers as described above and is provided for use by any federal credit union. The financial report forms identify the particular assigned account numbers which are related to the various main captions shown in the Statement of Financial Condition. Any credit union may at its option use a different system for numbering its General Ledger accounts subject to the requirements that the system adopted can permit the classification of transactions in at least the detail required by the financial report forms (FCU 109A, Statement of Financial Condition; 109B, Statement of Income; 109C, Supporting Schedules for Financial Statements; 109D, Statement of Changes in Earnings; and 109E, Statement of Cash Flows).

4020.7 SINGLE OPERATING EXPENSE (CONTROL) ACCOUNT AS AN OPTIONAL PROCEDURE

The Chart of Accounts provides for operating expense classifications (200 and 300 series of accounts) as separate General Ledger accounts. Under this treatment each expense account would be established and maintained as a separate page of the General Ledger (Form FCU 102) and would appear as a separate item on the trial Balance of General Ledger Accounts (Form FCU 116). As an option, an Expense Control Account and Expense Ledger (Form FCU 104) may be maintained instead of separate General Ledger pages for each operating expense classification.

4030 ACCOUNTING BASIS-MODIFIED CASH BASIS OR ACCRUAL BASIS

This manual prescribes two alternative bases for use by federal credit unions in maintaining their accounting records; namely, the Modified Cash Basis and the Accrual Basis. These bases of accounting are described below.

4030.1 MODIFIED CASH BASIS

4030.1.1 MINIMUM PROCEDURE PRESCRIBED FOR ALL CREDIT UNIONS

The modified cash basis of accounting represents the minimum requirements prescribed for use by federal credit unions in maintaining their accounting records. Each credit union is required to at least maintain its accounting records on this basis to recognize: (a) all cash transactions and (b) those additional transactions set forth below. All credit unions are encouraged to follow the accrual basis of accounting. The accrual basis of accounting is recommended for certain credit unions, generally those with assets totaling \$2,000,000 or more, as described in Section 2020.10 of this manual.

4030.1.2 DEFINITION OF MODIFIED CASH BASIS

The modified cash basis of accounting prescribed herein is a cash basis of accounting under which financial transactions are recorded based on the actual receipt or disbursement of cash. In order, however, to recognize in the accounting records certain significant transactions which have not yet been the subject of a cash receipt or a cash disbursement, the modified cash basis of accounting also should make provision for recording:

- Liabilities which are not promptly paid when due. Recurring monthly bills should be recorded consistently from month to month as paid by the credit union, and nonrecurring bills should be recorded when due and payable.
- Dividends and interest refunds applicable to the accounting period but not yet paid. The amount of unpaid dividends and interest refunds due members based on declarations by the board of directors should be recorded as a current charge to expense and as a liability.
- Deferred income or expense applicable to future periods. This applies to income and expense items of material

amounts which should be excluded from current operating income or expenses and included in income and expenses in future periods to the extent applicable.

- Estimated losses to be sustained on loans outstanding and other risk assets. This should represent net adjustments during the period to the valuation allowances maintained for losses on loans, investments, and assets.
- Depreciation on fixed assets. This requires charges to expense during the period to record depreciation on buildings, furniture and equipment unless these assets have previously been written off.

4030.1.3 SHORTCOMINGS OF MODIFIED CASH BASIS

The modified cash basis of accounting has certain shortcomings which can be overcome by adopting the accrual basis of accounting. Under the modified cash basis there are no provisions for recording in the current period:

Accrued interest earned and uncollected on loans. Loans outstanding usually represent the largest single asset account of credit unions. The related accrued interest earned and uncollected may represent a material asset that is not recognized in the accounts or in the financial reports under the modified cash basis. This affects both the aggregate assets shown in the Statement of Financial Condition and the current income as shown in the Statement of Income. The material significance of accrued unpaid interest on loans will vary between credit unions depending on their size and whether or not their loan agreements provide for regular monthly installment repayments.

Accrued income from investments. The failure to record this asset on the accrual basis results in understatements of both total assets and total operating income in periodic financial statements. It also causes significant fluctuations in income statements where significant amounts of interest income are received sporadically, such as at quarterly, semiannual or other intervals.

Accrued interest payable. Failure to recognize the liability for accrued interest payable on borrowings results in understatements of liabilities and in total operating expenses especially when payment of this expense is made infrequently.

Accrued expense. When the modified cash basis of accounting is used, expenses are frequently charged for significant costs relating to prior periods.

4030.2 ACCRUAL BASIS OF ACCOUNTING

4030.2.1 DEFINITION OF ACCRUAL BASIS

The accrual basis of accounting is the method of accounting under which liabilities and expenses are recorded when incurred, whether or not paid, and income is recorded when earned, whether or not received. This basis of accounting provides the most complete and informative record of the financial activities of a credit union.

4030.2.2 APPLICABILITY

As stated in Section 2020.10, the adoption of the accrual basis is recommended for credit unions with assets totaling \$2,000,000 or more and should be used for all other credit unions for which the basis is deemed practicable by the credit union's board of directors.

4030.2.3 SCOPE OF ACCRUALS

The adoption of the accrual basis of accounting by any credit union contemplates that accruals will recognize all significant elements of income as earned, and all significant elements of expense as incurred. The differences from the modified cash basis, discussed below, do not present a substantial impairment to the uniform accounting system. Yet, they will serve to spread certain income and expense items over the period of time to which applicable.

If a credit union adopts the accrual basis it should be prepared to stay on that basis because, unless there is consistency from period to period, its financial picture will be distorted. Credit unions should also realize that adoption of the accrual basis may distort to some extent the financial picture in the accounting period in which the accrual basis is adopted.

The accounting system which is generally referred to as "accrual accounting" serves to apportion income and expense to the period in which the income is earned, regardless of when it is actually collected, and to the period in which expenses are incurred, regardless of when they are actually paid. When the accrual basis of accounting is used, accruals need to be recorded monthly or at least quarterly or at the end of each regular share account dividend period, if that period is longer than quarterly.

The accrual basis of accounting can be categorized into four areas as follows: Accrued Income, Accrued Expenses, Deferred Charges, and Deferred Credits.

4030.2.4 ACCRUED INCOME

The accrual of income is accomplished by debiting an asset account for the amount of income accrued and crediting the appropriate income account. This results in the allocation of income to the period earned prior to actual collection. The basic asset accounts to be established are "Accrued Interest on Loans", (Account No. 781) and "Accrued Income on Investments", (Account No. 782).

4030.2.4.1 ACCRUED INTEREST ON LOANS

Interest on loans and other receivables may be the largest single item of uncollected income. "Accrued Interest on Loans" represents the uncollected interest on members' loans based on their outstanding loan balances at all interest rates. The uncollected interest is determined by the use of composite interest rate factors that are applied to the respective outstanding loan balances derived through manual computations or use of computerized totals at various interest rates. The accrued interest should also include the applicable amounts of amortization relating to net origination fees and discounts on loans purchased that are required to be accounted for as an adjustment of yield.

4030.2.4.2 ACCRUED INCOME ON INVESTMENTS

Income on all types of investments can be recorded in each accounting period based on the actual time investments are owned or held for which the investment income has not been received. This applies to investments in savings and loan associations, other credit unions, common trust or mutual funds investments and all other investments. Each period, income accrued on common trust investments and mutual funds should be adjusted as required based on advice of income received during the ensuing month. Interest on the general type of government securities can be accrued each period based on the applicable portion of the semiannual interest. Income from dividends on savings and loan shares can be accrued based on the best information available as to the estimated effective dividend rate; appropriate adjustments should be made to reflect the actual effective investment income when this information becomes known. Income accrued on certificates of deposit may require an adjustment for a penalty assessed for withdrawal before maturity.

Below is an example of the entries in connection with the accrual of interest on U.S. Government bonds. This example also illustrates the use of "Accrued Income on Investments", (Account No. 782).

Assume a United States Government Bond is purchased March 15; par value \$1,000; interest rate 6 percent, payable semiannually on December 31 and June 30; purchased at 102 plus \$2.50 commission and accrued interest (cost of bond \$1,022.50; accrued interest purchased \$12.50).

Dr. - U.S. Government Obligations (Acct. No. 741)	\$1,022.50
Dr. - Accrued Income on Investments (Acct. No. 782)	12.50
Cr. - Cash (Acct. No. 731)	\$1,035.00

If interest is accrued at the end of each month, the following entry would be made at the end of March:

Dr. - Accrued Income on Investments (Acct. No. 782)	\$2.50
Cr. - Income on U.S. Government Obligations (Acct. No. 121)	\$2.50

At the end of each succeeding month the following entry would be made:

Dr. - Accrued Income on Investments (Acct. No. 782)	\$5.00
Cr. - Income on U.S. Government Obligations (Acct. No. 121)	\$5.00

Upon receipt of the interest payment at June 30 the following entry would be made:

Dr. - Cash (Acct. No. 731)	\$30.00
Cr. - Accrued Income on Investments (Acct. No. 782)	\$30.00

An illustration of the recording of income on a bond involving the amortization of a premium or the accretion of a discount can be found in Section 4050.4.

The following are examples of the entries required to record the collection of income on savings and loans shares which had previously been accrued.

If the dividend (or interest) is paid in cash, the following entry would be made upon receipt of the check:

Dr. - Cash (Acct. No. 731)	\$62.50
Cr. - Accrued Income on Investments (Acct. No. 782)	\$62.50

If the dividend (or interest) is paid by credit to the investment account, the following entry is made:

Dr. - Other Shares, Deposits, and Certificates (Acct. No. 746)	\$62.50
Cr. - Accrued Income on Investments (Acct. No. 782)	\$62.50

4030.2.5 ACCRUED INSURANCE REFUNDS-LIFE SAVINGS AND BORROWERS' PROTECTION INSURANCE

Another accrual which might fall into the category of accrued assets occurs when credit unions have life savings and borrowers' protection insurance policies which provide that the cost to the credit union is based on claims experience. Generally, the amount of the premium and the formula for computing a refund based on claims experiences are expressly stated in the policies. The policies usually provide that on the anniversary date there will be a settlement to determine any refunds due the credit union.

A credit union with such a policy may decide to employ accounting procedures that will show the insurance cost to the credit union for periods between settlement dates. This can be done by adjusting the records periodically in the same manner as would be done at settlement dates. Adjustments would involve the following accounts:

No. 312-Life Savings Insurance
No. 313-Borrowers' Insurance
No. 799-Other Assets

The adjustments to expense Account Nos. 312 and 313 should involve the cost of the insurance and Account No. 799 should reflect any amounts that would be due from the insurance company as of the adjustments date on the basis of premiums and claims paid. (Adjustments should not be made on the basis of claims filed). The adjustments may be made periodically as determined by the board of directors.

“Other Assets”, (Account No. 799) is used in this case since the asset is not properly represented as earned income as is the case in the examples of income accruals, but instead represents a potential receivable from the insurance company. The final adjustment made as of the settlement date should represent the actual status of the accounts involved.

4030.2.6 ACCRUED EXPENSES

Expenses are accrued in order to allocate expenses prior to actual payment, to the period incurred, regardless of when due and payable. The accrual of expenses is accomplished by establishing a liability account for the amount of expense accrued and debiting the appropriate expense account. The basic liability accounts should be the Accrued Expenses, (Accounts Nos. 851 through 859). The board of directors authorizes the accrual of any expense item and requires the accrual to be recorded in a manner that is consistent with good accounting practice. One of the basic criteria is that each accounting period should be charged as closely as possible with the expenses applicable to that period.

An example of the accrual of dividends is illustrated below. In this example, the board has estimated in January that the semiannual dividend to be paid as of the following June 30 will be \$6,000, and it is desired that the expense be accrued monthly. The following entry should be made in connection with the dividend during each month of the dividend period:

Dr. - Dividend Expenses	
(Acct. No. 380)	\$1,000
Cr. - Accrued Dividends	
Payable (Acct. No. 854)	\$1,000

At the end of June, the liability account will have a balance of \$6,000 for the dividend. If dividends are credited to shares on June 30 and the estimate was accurate, the following entry should be made to record the distribution of the dividend to members' accounts:

Dr. - Accrued Dividends Payable	
(Acct. No. 854)	\$6,000
Cr. - Shares (Acct. No. 901)	\$6,000

If dividends are not credited to shares until July 1, the June 30 financial statements should reflect the dividend liability as an amount payable rather than as an accrued expense. In this case, the following entry should be made prior to closing the books on June 30:

Dr. - Accrued Dividends Payable	
(Acct. No. 854)	\$6,000
Cr. - Dividends Payable	
(Acct. No. 820)	\$6,000

The following entry would then be made to record distribution of the dividend on July 1:

Dr. - Dividend Payable	
(Acct. No. 820)	\$6,000
Cr. - Shares (Acct. No. 901)	\$6,000

Credit unions may not wish to accrue expenses as frequently as monthly. They can still allocate certain readily determinable expenses to the dividend period in which they are applicable. In such a case, credit unions can, at least quarterly or at the close of the regular share account dividend period if longer than quarterly, accrue expenses which have been incurred but which are not due and payable at that date. Examples are salaries, cost of space occupied, and interest on borrowed money. The appropriate expense account should be debited and the appropriate accrued expense account under the category Accrued Expenses (Account Nos. 850-859) credited. When these expenses are paid, the appropriate accrued expense account should be debited for the amount accrued.

4030.2.7 DEFERRED CREDITS

Deferred credits are generally defined as being advances of income and revenue prior to the performance of the services or transfer of the goods necessary to earn the income. Credit unions may use this account to allocate dividends on the savings and borrowers' protection insurance to the accounting periods that will benefit from the dividends. The procedure applies to insurance policies on which the credit union pays premiums on a periodic basis and may receive, at the discretion of the insurance company, dividends in one year based on the previous year's premiums. If a substantial refund was credited to income when received, this could result in a distortion of the insurance expense for that period when the books are closed more frequently than annually. Thus the dividend may be debited to "Other Prepaid Insurance", (Account No. 766) and credited to "Other Non-Operating Income (Expense)", (Account No. 440). Account No. 766 should be amortized over the 12-months benefited.

Under some circumstances, it may be reasonable to adopt and apply the theory that future periods benefit from dividends earned in a prior period. Since insurance dividends are generally received on an annual basis, it follows that the period that may benefit will be the year after the dividends are earned (i.e., the year in which the dividends are received). Since the entire year benefits, it is logical to reason that each of the remaining accounting periods should benefit equally. Therefore, a credit union that receives an insurance dividend credit in the first part of the year may distribute this credit evenly over the remaining periods of the year.

When notice is received of the insurance dividend credit, the charge for the entire amount of the credit should be to "Other Prepaid Insurance", (Account No. 766). "Borrowers' Insurance", (Account No. 313) or "Other Miscellaneous Operating Income", (Account No. 151), should then be credited, as appropriate. The amount of the credit may be only one-twelfth, one fourth or one-half of the amount of the dividend depending upon the frequency of the accruals. The remaining portion should be credited to "Deferred Credits-Insurance Premium Rebates", (Account. No. 882). During the remaining accrual periods in the calendar year, "Deferred Credits Insurance Premium Rebates", (Account No. 882) should be debited and the appropriate expense accounts or "Other Miscellaneous Operating Income", (Account No. 151) credited for the remaining proportionate parts of the dividend. Advances of funds received by a credit union pursuant to a grant from a governmental or private agency, to be used for various expenses, should be recorded as a deferred credit.

4030.2.8 DEFERRED CHARGES

Deferred charges are generally defined as the creation of an asset resulting from the prepayment of an expense item which should properly be allocated to subsequent operations. The significant consideration is to establish the asset at a reasonable value. When the Statement of Financial Condition is presented it should report a bona fide charge. The following asset accounts are provided in connection with deferred charges:

- No. 763-Deferred Charges-Commitment Fees on Loans to be Purchased
- No. 764-Prepaid Rent
- No. 765-Prepaid Share Insurance
- No. 766-Other Prepaid Insurance
- No. 767-Deferred Pension Costs
- No. 768-Unamortized Organization Costs

Detailed descriptions pertaining to the use of each account are given in Section 4050.4, listed by account number.

The board of directors may treat any other prepayment of expenses as a deferred charge. The asset account to be used is "Other Prepaid Expenses and Deferred Charges", (Acct. No. 769). This account can be debited as expenses are allocated (amortized) to the appropriate expense account in accordance with the period of amortization determined by the board of directors.

Below are some types of expenses that can be treated as deferred charges.

Stationery and Supplies

Credit unions sometimes purchase large quantities of forms to take advantage of lower unit costs (discounts) on large quantity buys. The cost of supplies is used to determine the amount of the deferred charge. If for example, a purchase of a 2-year supply of Individual Share and Loan Ledgers and members' passbooks is made and it is decided that the \$1,200 cost is to be amortized monthly, the following entries would be made:

Upon Purchase:

Dr. - Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	\$1,200.00
Cr. - Cash (Acct. No. 731)	\$1,200.00

At the End of the Month:

Dr. - Stationery and Supplies (Acct. No. 264)	\$50.00
Cr. - Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	\$50.00

Association Fees

Dues to a credit union organization are usually paid in advance. The cost may be amortized over the credit union's fiscal year as follows:

Upon payment of a year's dues:

Dr. - Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	\$840.00
Cr. - Cash (Acct. No. 731)	\$840.00

At the end of each month:

Dr. - Association Dues (Acct. No. 240)	\$70.00
Cr. - Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	\$70.00

Share Insurance Premium

The premium for share insurance may be amortized over the year for which the premium is paid.

Upon payment of a year's premium:

Dr. - Prepaid Share Insurance (Acct. No. 765)	\$822.00
Cr. - Cash (Acct. No. 731)	\$822.00

At the end of each month:

Dr. - Share Insurance (Acct. No. 311)	\$68.50
Cr. - Prepaid Share Insurance (Acct. No. 765)	\$68.50

4030.2.9 CONVERSION TO THE ACCRUAL BASIS OF ACCOUNTING

Conversion to the accrual basis of accounting should be accomplished immediately following the closing of the federal credit union's books at the end of a dividend period. It is recommended that all required financial statements be prepared both before and after the conversion to the accrual basis of accounting.

Under generally accepted accounting principles (GAAP), conversion to the accrual basis of accounting requires treatment as a prior period adjustment. Prior period adjustments should be reflected as adjustments to the opening balance of undivided earnings.

4030.2.9.1 ACCRUED INCOME

The conversion journal entry may be made by debiting each applicable accrued income account in the 780 account series and crediting Undivided Earnings with the amount of income earned but not yet received at the end of the accounting period.

How to determine the amount of accrued income:

#1 Accrued Interest on Loans (Acct. No. 781) can be determined by calculating the total loans outstanding at each effective interest rate, multiplying these totals by the appropriate monthly interest rate factors and prorating that amount for the average number of days of unpaid interest divided by the number of days in a year. It also may be determined by calculating the unpaid interest on individual loan balances. The individual calculations of unpaid interest would then be totaled and recorded as a lump sum. When the individual loan ledgers are maintained via electronic data processing, the amount of unpaid interest is usually available on month-end reports provided by the data processor.

#2 Accrued Income on Investments (Acct. No. 782) can be determined by calculating earned income using a similar method of interest computation as that used by the investee institution in which the funds are invested.

#3 Accrued Credit Card Income (Acct. No. 783) should be the total of billed interest charges that were calculated by the credit card processor and added to the member's statements of account, less members' payments posted by the credit card processor.

#4 Accrued Interest on Real Estate Loans (Acct. No. 784) may be determined in the same manner as described for Acct. No. 781 above.

#5 Purchased Accrued Interest Receivable on Loans (Acct. No. 785) may be calculated by deducting any interest received on purchased loans from the total interest receivable purchased.

#6 Accrued Interest on Loan Participations Purchased (Acct. No. 786) may be determined by adding together any unpaid interest on loans that was included in the purchase of a loan participation.

#7 Accrued Income on NCUSIF Investment (Acct. No. 788) should be accrued only when the NCUA Board of Directors declares a redistribution from the NCUSIF and should be calculated by multiplying the investment amount by the interest rate stated in the notice of redistribution, dividing by 365 days and multiplying by the number of days of unpaid interest accrued.

#8 Other Accrued Income (Acct. No. 789) should be the total of any other income earned but not yet received at the end of the accounting period and may be determined by using the same basis and method of computation as the individual or institution that is making the income payment.

4030.2.9.2 ACCRUED EXPENSES

The conversion Journal and Cash Record entry may be made by crediting each applicable accrued expense account in the 850 account series and debiting Undivided Earnings with the amount of expenses accrued and not yet paid at the end of the accounting period.

How to determine the amount of accrued expenses:

#1 Accrued Interest Payable (Acct. No. 818) should be computed using the same interest computation method(s) for computing interest on borrowed money that is specified in the respective loan agreement(s) to which the federal credit union is a party.

#2 Accrued Salaries (Acct. No. 851) should be computed based on the amount of salaries earned, but unpaid. They should be recorded on a basis of cost per hour for hourly paid employees, and by a prorated ratio of unpaid work days at period-end to total workdays for the period, for salaried employees.

#3 Accrued Employee Benefits (Acct. No. 852) should be determined on the same basis that was used for accrued salaries, i.e., using an hourly or salary basis.

#4 Accrued Cost of Space Occupied (Acct. No. 853) should be established at period-end based on the space occupancy cost per day for the number of days remaining for which occupancy costs have not been paid.

#5 Accrued Dividends Payable (Acct. No. 854) should be computed and accrued on accounts in which a rate has been specified in advance or contracted for. The accrual should be computed using the rate stated in the contract and should encompass dividends earned but not credited to the member's account.

#6 Accrued Accounting Service Cost (Acct. No. 855) should be computed using an average daily cost based on past experience. The daily cost should be multiplied by the number of remaining days within the period for which the cost has been incurred and has not been paid.

#7 Other Accrued Expenses (Acct. No. 859) should be based on an average daily historical cost or by any other method that accurately reflects the incurred cost at period end which has remained unpaid.

4030.2.10 TRANSACTIONS AFTER CONVERSION TO ACCRUAL ACCOUNTING

At the end of each month:

- a) The Account Series 780 should be debited for the amount of income earned but not received for the period (with the appropriate income accounts credited for the same amount).
- b) The Account Series 850 should be credited for expenses incurred but not yet paid for the month (with the appropriate expense accounts debited for the same amount).

The first day of the next period and following, income collected may be credited to the Account Series 780 until these accounts reach zero with subsequent income collections credited to the proper income accounts. Expenses paid may be debited to the Account Series 850 until these accounts reach zero with subsequent expense payments debited to the appropriate expense accounts.

4030.2.11 OVER OR UNDER ACCRUED EXPENSES

4030.2.11.1 OVER ACCRUED EXPENSES

If at the time of payment of an accrued expense, the amount to be paid is less than the amount that has been accrued, the following entry should be recorded:

Account Title	Acct. No.	Dr.	Cr.
Accrued Expenses	818, 851-859 852, 853	xxxx	
Operating Expenses	200, 399		xxxx

4030.2.11.2 UNDER ACCRUED EXPENSES

If at the time of payment of an accrued expense, the amount to be paid is more than the amount that has been accrued, the following entry should be made:

Account Title	Acct. No.	Dr.	Cr.
Operating Expense Accounts	200-399	xxxx	
Accrued Expenses	818, 851-859 852, 853		xxxx

4030.3 ACCRUAL ENTRIES IN GENERAL LEDGER ACCOUNT DESCRIPTIONS

The General Ledger account descriptions set forth below and following contain the operating procedures applicable to the accounts for federal credit unions following the modified cash basis of accounting. For each General Ledger account that may be subject to a different procedure under the accrual basis of accounting, a separate subheading may be provided which describes the alternate procedure applying to the accrual basis.

CHART OF GENERAL LEDGER ACCOUNTS

The chart of General Ledger accounts includes six main groups of accounts as follows:

4040.1 OPERATING INCOME ACCOUNTS (100 SERIES)

110 Income from Loans

- 111 Interest on Loans
 - 111.1 Interest on Business Loans
 - 111.2 Interest on Agriculture Loans
 - 111.3 Interest on Consumer Loans
 - 111.4 Interest on Mobile Home Loans
 - 111.5 Interest on Share Secured/Insured
 - 111.6 Interest on Other Member Loans
 - 111.7 Interest on Home Equity Loans
- 112 Interest on Lines of Credit
 - 112.1 Interest on Other Lines of Credit
 - 112.2 Interest on Credit Cards
- 113 Income from Loans of Liquidating Credit Unions
- 114 Interest on Real Estate Loans
 - 114.1 Interest on Real Estate Loans Over 12 Years
 - 114.2 Interest on Real Estate Loans 12 Years and Under
- 115 Interest on Loans and Other Obligations Purchased (100%)
- 116 Interest on Loans Participations Purchased
- 117 Service Income on Loans Sold and Participations
- 118 Interest Income on Other Miscellaneous Nonmember Loans
- 119 Interest Refunds

120 Investment Income

- 121 Income from U.S. Government Obligations
- 122 Income from Federal Agency Securities
- 123 Income from Investment in NCUSIF
- 124 Interest on Trading Securities
- 125 Income from Common Trust Investments
- 126 Income from Shares/Deposits/Certificates of Corporate Credit Unions
- 127 Income from Shares/Deposits/Certificates of Other Credit Unions
- 128 Income from Other Shares/Deposits/Certificates
 - 128.1 Income from Investments in Credit Union Service Corporations (CUSO)
- 129 Income from Other Investments

130 Fees and Charges

- 131 Other Fees and Charges
- 132 Loan Origination Fees

- 140 Gain (Loss) on Sale of Loans and Other Obligations
 - 141 Gain (Loss) on Sale of Eligible Obligations
- 150 Miscellaneous Operating Income
 - 151 Other Miscellaneous Operating Income
 - 152 Miscellaneous Fee Income
 - 153 Credit Card Interchange Income
 - 154 Miscellaneous Operating Income Earned on Leases
- 160 Service Income on Loans and Other Obligations
 - 161 Service Income of Loans and Other Obligations
 - 162 Service Income on Credit Card Loans
 - 163 Service Income-Net Commitment Fees
- 170 Trading Profits and Losses

4040.2 OPERATING EXPENSE ACCOUNTS (200-300 SERIES)

- 210 Compensation Expense
 - 211 Salaries
 - 212 Reimbursement to Sponsor for Services
 - 219 Other Compensation
- 220 Employee Benefits
 - 221 Pension Plan Costs
 - 222 Social Security Taxes (Employers' Share)
 - 223 Unemployment Compensation Taxes
 - 224 Other Employee Benefits
- 230 Travel and Conference Expenses
 - 231 Employees' Travel and Conference Expenses
 - 232 Officers' and Directors' Travel and Conference Expenses
 - 239 Other Travel and Conference Expenses
- 240 Association Dues
- 250 Office Occupancy Expenses
 - 251 Rent
 - 252 Maintenance of Buildings
 - 253 Utilities
 - 254 Depreciation of Buildings
 - 255 Amortization of Leasehold Improvements
 - 256 Real Estate Taxes
 - 257 Depreciation Expense for Leased Assets
 - 259 Other Office Occupancy Expenses

- 260 Office Operations Expenses
 - 261 Communications
 - 262 Rental of Furniture and Equipment
 - 263 Maintenance of Furniture and Equipment
 - 264 Stationery and Supplies
 - 265 Insurance
 - 266 Depreciation of Furniture and Equipment
 - 268 Bank Service Charges
 - 269 Other Office Operations Expenses
- 270 Educational and Promotional Expense
 - 271 Advertising
 - 272 Publicity and Promotions
 - 279 Other Educational and Promotional Expenses
- 280 Loan Servicing Expenses
 - 282 Collection Expenses
 - 283 Recording Fees-Chattel Lien Insurance
 - 284 Credit Reports
 - 285 Refunds-Real Estate Finance Charges
 - 286 Credit Card Program Expenses
 - 287 Service Fees on Loans Purchased
 - 289 Other Loan Servicing Expenses
- 290 Professional and Outside Services
 - 291 Legal Fees
 - 292 Audit Fees
 - 293 Accounting Services
 - 294 Management Consulting Fees
 - 299 Other Professional and Outside Services
- 300 Provision for Loss
 - 301 Provision for Loan Losses-Consumer Loans
 - 302 Provision for Loan Losses-Lines of Credit
 - 303 Provision for Loan Losses-Real Estate Loans
 - 304 Provision for Loan Losses-Mobil Home Loans
 - 305 Provision for Loan Losses-Other Loans
 - 309 Other Provision for Losses
- 310 Members' Insurance
 - 311 Share Insurance
 - 312 Life Savings Insurance
 - 313 Borrowers' Insurance
 - 319 Other Members' Insurance
- 320 Federal Operating Fee Expense
- 330 Cash Over and Short

- 340 Interest on Borrowed Money
 - 341 Inputted Interest Costs
 - 342 Other Interest on Borrowed Money
- 350 Annual Meeting Expenses
- 360 Truth in Lending Expenses (TIL)
 - 361 Truth in Lending Reimbursement of Interest Overcharges
 - 362 TIL Restitution
- 370 Miscellaneous Operating Expenses
 - 371 Unexercised Commitment Fees
 - 372 Commitment Fees on Borrowed Money
- 380 Dividend Expenses
 - 380.1 Regular Share Dividend Expense
 - 380.2 Share Draft Dividend Expense
 - 380.3 Club Account Dividend Expense
 - 380.4 IRA/Keogh Dividend Expense
 - 380.5 IRA/Keogh Certificate Dividend Expense
 - 380.6 Share Certificate Dividend Expense
 - 380.7 Money Market Dividend Expense
 - 380.8 Other Dividend Expense
- 385 Interest on Deposits

4040.3 NONOPERATING INCOME AND EXPENSE ACCOUNTS (400 SERIES)

- 400 Nonoperating Income (Expense)
- 420 Gain (Loss) on Investments
- 430 Gain (Loss) on Disposition of Assets
- 440 Other Nonoperating Income (Expense)
 - 446 Extraordinary Gains and Losses

4040.4 ASSET ACCOUNTS (700 SERIES)

700 Loans to Members

- 701 Loans
 - 701.1 Commercial Loans
 - 701.2 Agriculture Loans
 - 701.3 Consumer Loans
 - 701.4 Other Member Loans
 - 701.5 Home Equity Loans
 - 701.8 Net Commitment Fees-Loans to Members
 - 701.9 Net Origination Fees (Costs)-Loans to Members
- 702 Lines of Credit to Members
 - 702.1 Lines of Credit to Members-Credit Cards
 - 702.2 Lines of Credit-Cash Advances in Process
 - 702.3 Net Origination Fees (Costs)-Lines of Credit
 - 702.4 Net Commitment Fees (Costs)-Lines of Credit
- 703 Real Estate Loans Over 12 Years
 - 703.1 Net Origination Fees (Costs)-Real Estate Loans Over 12 Years
- 704 Real Estate Loans 12 Years or Less
 - 704.1 Net Origination Fees (Costs)-Real Estate Loans 12 Years or Less
- 705 Mobile Home Loans
 - 705.1 Net Origination Fees (Costs) Mobile Home Loans
- 706 Share Secured/Insured Loans
- 707 Loans-Collateral in Process of Liquidation

710 Other Loans

- 711 Notes and Contracts Receivable
- 712 Loans Purchased from Liquidating Credit Unions
 - 712.1 Discounts on Loans Purchased from Liquidating Credit Unions
- 713 Loans Purchased from Liquidating Credit Unions-Collateral in Process of Liquidation
- 714 Loans or Other Obligations Purchased
 - 714.1 Premium on Loans Purchased
 - 714.2 Discount on Loans Purchased
- 715 Loan Participations Purchased
 - 715.1 Premium on Loan Participations Purchased
 - 715.2 Discount on Loan Participation Purchased
- 716 Loan Participations Sold
 - 716.1 Loan Participations Sold (Contra-Asset Account)
- 717 Other Miscellaneous Nonmember Loans
- 718 Loans Subject to Repurchase Agreements
- 719 Allowance for Loan Losses

- 720 Other Receivables
 - 721 Payroll Deductions Receivable
 - 722 Receivables from Officials and Employees
 - 723 Lease Payments Receivable
 - 724 Insurance Premiums Receivables
 - 725 Advance for Taxes, Insurance, and Other Charges
 - 727 U.S. Savings Bonds Redeemed Receivable
 - 728 Real Estate Loans Receivable
 - 729 Other Accounts Receivable
 - 729.1 TIL Bond Claim Receivable
 - 729.2 TIS Bond Claim Receivable
- 730 Cash
 - 731 Cash-Checking Account
 - 732-735 Reserved for Additional Cash Accounts
 - 736 Treasury Tax and Loan Remittance
 - 737 Cash-U.S. Bond Installment Payments
 - 738 Petty Cash
 - 739 Cash Fund
- 740 Investments
 - 741 Held-to-Maturity Securities
 - 741.1 Discount on Held-to-Maturity Securities
 - 741.2 Premium on Held-to-Maturity Securities
 - 742 Trading Securities
 - 743 Available-for-Sale Securities
 - 744 Shares, Deposits, Certificates of Corporate Credit Unions
 - 745 Shares, Deposits, Certificates of Other Credit Unions
 - 746 Other Shares, Deposits, and Certificates
 - 746.1 Commercial Bank Deposits
 - 746.2 Savings & Loans and Mutual Savings Bank Deposits
 - 746.3 Other Investments
 - 747 Loans to Other Credit Unions
 - 748 Investments in Credit Union Service Corporations
 - 748.2 Loans to Credit Union Service Corporations
 - 751 Investment in Central Liquidity Facility
 - 751.1 Investment in CLF Membership Stock
 - 751.2 Investment in CLF Liquidity Clearing
 - 752 Investment in NCUA Share Insurance Capitalization Fund
 - 753 Investment in Branch
 - 755 Purchased Accrued Interest Receivable

- 760 Prepaid Expenses and Deferred Charges
 - 762 Deferred Charges-Commitment Fees Paid in Connection With the Acquisition of Borrowed Funds
 - 763 Deferred Charges-Commitment Fees on Loans to be Purchased
 - 764 Prepaid Rent
 - 765 Prepaid Share Insurance
 - 766 Other Prepaid Insurance
 - 767 Deferred Pension Cost
 - 768 Unamortized Organization Costs
 - 769 Other Prepaid Expenses and Deferred Charges
- 770 Fixed Assets
 - 771 Land
 - 772 Building
 - 773 Allowance for Depreciation of Building
 - 774 Furniture and Equipment
 - 775 Allowance for Depreciation of Furniture and Equipment
 - 776 Leasehold Improvements
 - 777 Allowance for Amortization of Leasehold Improvement
 - 778 Leased Assets Under Capital Lease
 - 779 Allowance for Depreciation of Leased Assets
- 780 Accrued Income
 - 781 Accrued Interest on Loans
 - 782 Accrued Income on Investments
 - 783 Accrued Credit Card Income
 - 784 Accrued Interest on Real Estate Loans
 - 785 Purchased Accrued Interest Receivable on Loans (100%)
 - 786 Accrued Interest on Loan Participations Purchased
 - 787 Accrued Interest-Other Lines of Credit to Members
 - 788 Accrued Income on NCUSIF Investment
 - 789 Other Accrued Income
- 790 Other Assets
 - 792 Insurance Premium Stabilization
 - 793 Monetary Control Reserve Deposits
 - 797 Advance Payments by Borrowers for Taxes and Insurance on Serviced Loans
 - 798 Assets Acquired in Liquidation on Loans
 - 799 Other Assets

4040.5 LIABILITY ACCOUNTS (800 SERIES)

800 Accounts Payable

- 801 Accounts Payable**
 - 801.1 Accounts Payable-Traveler's Checks and Money Orders**
- 802 Accounts Payable-Undistributed Payments**
 - 802.1 Accounts Payable-Credit Card Payments in Process**
 - 802.2 Accounts Payable-Credit Card Adjustments in Process**
 - 802.3 Accounts Payable-Credit Card Chargebacks in Process**
- 803 Accounts Payable-Undistributed Payroll Deduction or Allotments**
- 804 Accounts Payable-Check Transmittal**
- 805 Accounts Payable-Drafts Authorized**
- 806 Accounts Payable-Installment Payments on U.S. Bonds**
- 807 Accounts Payable-U.S. Savings Bond Remittances**
- 808 Real Estate Loans Payable**
- 809 Escrow Accounts**

810 Notes and Interest Payable

- 811 Mortgage Notes Payable**
- 812 Notes Payable-Other**
 - 812.1 Notes Payable-Commitment Fees**
- 813 Federal Funds Payable**
- 818 Accrued Interest Payable**

820 Dividends Payable

- 820.1 Dividends Payable on Regular Shares**
- 820.2 Dividends Payable on Share Drafts**
- 820.3 Dividends Payable on Club Accounts**
- 820.4 Dividends Payable on IRA/Keogh Accounts**
- 820.5 Dividends Payable on IRA/Keogh Certificate Accounts**
- 820.6 Dividends Payable on Share Certificates**
- 820.7 Dividends Payable on Money Market Accounts**
- 820.8 Dividends Payable on Other Accounts**

830 Interest Refunds Payable

840 Taxes Payable

- 841 Federal Withholding Taxes Payable**
- 842 State Withholding Taxes Payable**
- 845 City Withholding Taxes Payable**
- 846 Social Security Taxes Payable**
- 847 Federal Unemployment Compensation Tax Payable**
- 848 State Unemployment Compensation Tax Payable**
- 849 Other Taxes Payable**

- 850 Accrued Expenses
 - 851 Accrued Salaries
 - 852 Accrued Employee Benefits
 - 853 Accrued Cost of Space Occupied
 - 854 Accrued Dividends Payable
 - 855 Accrued Accounting Service Cash
 - 856 Accrued Loss Contingencies
 - 859 Other Accrued Expense
- 860 Other Liabilities
 - 861 Liability Under Pension Cost
 - 862 Collection on Loans and Other Obligations Serviced
 - 863 Obligations Under Capital Lease
 - 864 Monetary Control Pass Through Deposits
 - 865 Main Office
 - 866 Undisbursed Loan Proceeds
 - 867 Subordinated CDCU Debt
 - 869 Other Liabilities
- 870 Unapplied Data Processing Exceptions
 - 871 Unapplied Data Processing Exceptions (Receipts)
 - 872 Unapplied Data Processing Exceptions (Disbursements)
- 880 Deferred Credits
 - 881 Unearned Interest on Loans
 - 882 Deferred Credits-Insurance Premium Rates
 - 883 Deferred Gain on Liquidation of Loans
 - 884 Deferred Credits-Credit Card Commitments
 - 885 Deferred Credits-Prepaid Interest-Real Estate Loans
 - 886 Unamortized Discount on Sale of Assets
 - 887 Deferred Credits-Fees Received on Loans to be Purchased
 - 888 Deferred Credits-Insurance Premium Stabilization Reserve
 - 889 Other Deferred Credits
 - 890 Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members
 - 891 Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members Credit Cards
 - 892 Deferred Credits-Net Origination Fees (Costs)-Home Equity Lines of Credit
 - 893 Deferred Credits-Net Commitment Fees (Costs)-Lines of Credit to Members
 - 894 Deferred Credits-Net Commitment Fees (Costs)-Loans to Members

4040.6 SAVINGS/EQUITY ACCOUNTS (900 SERIES)

900 Shares of Members

- 901 Regular Shares
- 902 Share Draft
- 903 Club Accounts
- 904 Other Shares
- 905 Escrow Accounts
- 906 IRA/Keogh Retirement Service Shares
- 907 IRA/Keogh Retirement Service Certificates
- 908 Share Certificates
- 909 Shares-Unposted Payroll Deductions
- 910 Public Unit Shares
- 911 Money Market Shares
- 921 Shares of Nonmembers
- 925 Uninsured Secondary Capital
- 926 Deposits

930 Reserves

- 931 Regular Reserves
- 932 Special Reserve for Losses
- 933 Other Revocable Reserves
- 934 Reserve for Loss Contingencies
- 935 Corporate Central Reserve

940 Undivided Earnings

- 942 Appropriated Undivided Earnings
- 945 Accumulated Unrealized Gains/Losses on Available-for-Sale Securities

950 Donated Equity

960 Net Income (Loss)

4050 DESCRIPTION OF GENERAL LEDGER ACCOUNTS

4050.1 OPERATING INCOME ACCOUNTS (100 SERIES)

The income accounts (those in the “100” series of the Chart of Accounts) are the operating accounts which reflect the income of the credit union. These accounts are closed into Undivided Earnings (through the Net Income (Loss) account) at the close of the accounting period.

110-INCOME FROM LOANS

111-INTEREST ON LOANS

111.1-INTEREST ON BUSINESS LOANS

111.2-INTEREST ON AGRICULTURE LOANS

111.3-INTEREST ON CONSUMER LOANS

111.4-INTEREST ON MOBILE HOME LOANS

111.5-INTEREST ON SHARE SECURED/INSURED LOANS

111.6-INTEREST ON OTHER MEMBER LOANS

111.7-INTEREST ON HOME EQUITY LOANS

For credit unions following the modified cash basis of accounting, these accounts (111 series) should reflect the interest received on loans to members, i.e., only that interest which is actually collected. These accounts should be credited in the “Interest Received” column of the Journal and Cash Record with the interest collected on loans as shown in the daily summary cash received vouchers. Interest income accounts should be separated according to loan account types as described in Section 4050.4. Separation of income to compare with loan balances facilitates the computation of yields on the various types of loans.

Posting to the General Ledger

The total of the respective “Interest Received” columns of the Journal and Cash Record should be posted to the General Ledger at the close of each month.

Illustrative Entries

- a) When an installment on a loan is repaid and interest and late charges are collected:

Dr. - Cash (Acct. No. 731)	\$11.10
Cr. - Loans (Acct. No. 701)	\$10.00
Cr. - Interest on Loans (Acct. 111)	1.00
Cr. - Other Fees and Charges (Acct. 131)10

- b) When a member authorizes the credit union to transfer shares to loans and interest:

Dr. - Shares (Acct. No. 901-909)	\$25.25
Cr. - Loans (Acct. No. 701)	\$24.00
Cr. - Interest on Loans (Acct. 111)25

DETAILED TRANSACTIONS MODIFIED CASH BASIS

Credit:

- a) At the end of each month with interest collected on loans outstanding.

Debit:

- a) With the balance of the account when the income accounts are closed and transferred to the "Net Income (Loss)", (Account No. 960).

ACCRUAL BASIS OF ACCOUNTING

For a credit union following the accrual basis, these accounts should include the amount of interest earned and uncollected on the various types of loans. Interest should not be accrued on any loans which are 3 months or more delinquent. At the end of each month, the credit union should credit these accounts with the total uncollected interest earned during the month, with offsetting charges to the appropriate "Accrued Interest on Loans", (780 account series).

These accounts should also include period yield adjustments for loan origination and commitment fee accounts included in the "Loans to Members" series of accounts (see Section 4050.4, Account Nos. 701.9, 702.1, 702.2, 702.5, 703.1, 704.1 and 705.1).

When the individual loan ledgers are maintained by electronic data processing, the amount of unpaid interest is usually available on periodic reports. The amount of accrued interest for credit unions on a manual system can be determined by totaling the outstanding loan balances at each effective interest rate and multiplying these totals by the respective interest rate factors. (The figures obtained then have to be adjusted to take into consideration the length of time since the last loan payments.) The formula for this computation is:

$$\begin{array}{ccccccc} \text{Total Loan} & & \text{No. of days} & & \text{Interest} & & \\ \text{Balances} & \times & \text{interest due} & \times & \text{rate} & = & \text{Amount of} \\ & & \underline{\hspace{2cm}} & & \underline{\hspace{2cm}} & & \text{Accrued} \\ & & 365 & & 100 & & \text{Interest} \end{array}$$

As a simple example of calculating earned but uncollected interest, assume that as of June 30, a credit union has \$300,000 in loans outstanding at 9% interest and \$400,000 in loans outstanding at 12% interest. Assume further that all loans are repaid by payroll deductions which are credited on the 15th day of each month. Application of the above formula for each interest rate is illustrated as follows:

$$\begin{array}{ccccccc} \$300,000 & \times & \frac{15}{365} & \times & \frac{9}{100} & = & \$1,109.59 \\ \\ \$400,000 & \times & \frac{15}{365} & \times & \frac{12}{100} & = & \$1,972.50 \end{array}$$

$$\begin{array}{ccc} \text{Total accrued interest, June 15} & & \\ \text{to June 30} & = & \$3,082.09 \end{array}$$

This manual estimation method would naturally be more complicated whenever the loans have various payment dates which are unevenly spread throughout the month. It is acceptable in those cases to make an estimate of the weighted average number of days since last payment for use in place of the actual number of days in the above method. To illustrate this procedure, assume that a credit union posts several payroll deductions to loans during the month. The procedure involves totaling the number of days of unpaid interest and the number of loans from each payroll deduction and then dividing the total number of days of unpaid interest by the number of loans outstanding. This procedure is as shown.

Dates of Payroll Deduction Posting	No. of Days to Month- End	No. of Loans	Total No. Days of Unpaid Interest
June 2 - Salaried employees - paid monthly	28	8	224
June 12 - Office employees - paid monthly	18	32	576

Dates of Payroll Deduction Posting	No. of Days to Month- End	No. of Loans	Total No. Days of Unpaid Interest
June 17 - Supervisors - paid biweekly	13	18	234
June 25 - Other employees - paid weekly	5	970	4,850
June 29 - Credit Union employees - paid weekly	1	4	4
		<u>1,032</u>	<u>5,888</u>

The weighted average number of days since the last principle payment = $5,888/1,032 = 5.7$ days. Thus, 5.7 days would be a reasonable estimate of the weighted average number of days since last payment to be used in the above formula for computing accrued interest at month-end.

Combination of cash payments and irregular payroll deductions of various amounts could further complicate estimations of accrued interest. Most credit unions failing into this category probably use electronic data processing systems which automatically provide the necessary information. However, those credit unions on manual systems may design their own method of estimating accrued interest, provided the method results in a reasonably accurate estimate and is consistently applied.

If payroll deductions are received on the same dates every month, interest rates do not change, loan volume is relatively stable, and all loans are repaid on a monthly basis, the amount of interest accrued should not vary greatly from month to month. In many cases, it would be permissible to use the same accrued figures for a 3-month period. It will be necessary, however, to recalculate the accruals at least quarterly and make any necessary adjustments.

Accruals of interest on loans can be reversed on the first day of the following month by debiting the appropriate income account and crediting the appropriate accrued income account. Interest collected during the month can then be credited to income and the accrual process repeated at the next month-end. As a preferable alternative to reversing the accrual entry on the first day of the following month, interest collected may be credited to accrued income until that account reaches zero with subsequent interest collections being -credited to income.

Detailed Transactions

ACCRUAL BASIS

Credit:

- a) At the end of each month with the uncollected interest earned on loans outstanding.
- b) With adjustments, subject to the approval of the board of directors, when interest collections exceed the balance of the accrued interest account(s).
- c) At the end of each month with periodic yield adjustments from loan origination and/or commitment fee accounts.

Debit:

- a) With adjustments required to charge off accrued interest when loans are charged off with the approval of the board of directors.
- b) With adjustments, subject to the approval of the board of directors, when interest collections are less than accruals or balance of that account.
- c) On the first day of each month with an adjustment to reverse the accrual set up at the end of the previous month, or actual interest payments received.
- d) With the balance of the account when the income accounts are closed and transferred to the "Net Income (Loss)", (Account No. 960).

112-INTEREST ON LINES OF CREDIT

112.1-INTEREST ON OTHER LINES OF CREDIT

112.2-INTEREST ON CREDIT CARDS

The above accounts should be used to separate net interest income on the lines of credit offered by the credit union. Separation of the income to match loan balances is needed to compute yields on these type member accounts.

For credit unions that are following the modified cash basis of accounting, these accounts should reflect the interest received on credit card cash advances, charges, and other established lines of credit. Thus interest collected or received on loan balances recorded within Lines of Credit To Members, Account Series No. 702 should be recorded in these accounts. The amounts should be recorded in the "interest received" columns of the Journal and Cash Record, as shown on the daily cash received summary vouchers. The total column should then be recorded or posted to the General Ledger.

These accounts should also include periodic yield adjustments for loan origination and/or commitment fee accounts included in the Account Series No. 702 (see Account Nos. 702.1, 702.2 and 702.5 in Section 4050.4).

Illustrative Entries

a) Credit Cards:

- (1) To record a credit card payment that is received in the credit union office:
(When credit card processor is notified that a payment was received.)

Dr. - Cash (Acct. No. 731)	\$237.50
Cr. - Undistributed Payments	
(Acct. No. 802)	\$237.50
(When the credit card processor posts the loan payment)	
Dr. - Undistributed Payments	
(Acct. No. 802)	\$237.50
Cr. - Lines of Credit to Members -	
Credit Cards (Acct. No. 702)	\$200.00
Cr. - Interest on Lines of Credit	
(Acct. No. 112)	37.50

Detailed Transactions

MODIFIED CASH BASIS

Credit:

- a) At the end of the month with interest collected on the balances of outstanding lines of credit to members.
- b) At the end of each month with periodic yield adjustments from loan origination and/or commitment fee accounts.

Debit:

- a) With any reductions in the amount of interest collected due to corrections and adjustments of interest.
- b) With the balance of the account when the income accounts are closed and transferred to the "Net Income (Loss)", (Account No. 960).

ACCRUAL BASIS OF ACCOUNTING

For a credit union following the accrual basis, these accounts should reflect the amount of interest due on "Lines of Credit To Members", (Account Series No. 702) at the end of each month. Offsetting charges should be to either "Accrued Credit Card Income", (Account No. 783) or "Accrued Interest Other Lines of Credit To Members", (Account No. 787).

When interest on these lines of credit loans is received, the amount collected should be recorded in the “Interest Received” column of the Journal and Cash Record based on the daily summary cash received vouchers. At the end of the month, the total of the “Interest Received” column of the Journal and Cash Record should be posted to the credit of “Accrued Credit Card Income”, (Account No. 783) or “Accrued Interest-Other Lines of Credit to Member”, (Account No. 787), as applicable.

Detailed Transactions

ACCRUAL BASIS OF ACCOUNTING

Credit:

- a) At the end of each month with interest earned on the balances of members’ lines of credit.
- b) With adjustments when interest collections exceed accruals because the effective interest dates have varied from the transaction(s) dates.
- c) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify the accrual in “Accrued Credit Card Income”, (Account No. 783) and “Accrued Interest Other Lines of Credit To Members”, (Account No. 787) exceeds the balance of those income accounts.
- d) At the end of each month with periodic yield adjustments from loan origination and/or commitment fee accounts.

Debit:

- a) With adjustments required to charge off interest accrued when loans are charged off with the approval of the board of directors.
- b) With adjustments when interest collections are less than accruals because effective interest date(s) vary from the transaction date(s).
- c) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify “Accrued Credit Card Income”, (Account No. 783) and “Accrued Interest-Other Lines of Credit To Members”, (Account No. 787) is less than the balances of those accounts.
- d) With the balance of the account when it is dosed to the “Net Income (Loss)”, (Account No. 960).

113-INCOME FROM LOANS OF LIQUIDATING CREDIT UNIONS

For credit unions following the modified cash basis of accounting, this account reflects interest income and late charges received on loans purchased from liquidating credit unions. It also includes the applicable amount of discount on such loans when the loans have been partially or fully collected.

Entries in the Journal and Cash Record

This account is credited in the "Miscellaneous Credit" column of the Journal and Cash Record (or in special columns assigned for this purpose if the volume of transactions justifies) with the interest and late charges collected on such loans as shown in the daily summary Cash Received Vouchers.

Posting to the General Ledger

The total interest and late charges received as recorded for this account in the "Miscellaneous Credit" column of the Journal and Cash Record (or the special column(s) assigned) is posted as a credit to this account in the General Ledger at the close of each month.

Illustrative Entries

-
- a) When an installment on a loan purchased from a liquidating credit union is repaid with interest of \$10.00 and a late payment charge of \$2.00:

Dr. - Cash (Acct. No. 731)	\$32.00
Cr. - Loans Purchased from Liquidating Credit Unions (Acct. No. 712)	\$20.00
Cr. - Income from Loans of Liquidating Credit Unions (Acct. No. 113)	12.00

- b) When principal payments exceed the purchase price of a loan (unpaid balance at the time of purchase less applicable discount) an immediate transfer to income of an amount of the discount equal to such excess may be made. This entry is:

Dr. - Deferred Gain on Liquidation of Loans (Acct. No. 883)	\$10.00
Cr. - Income from Loans of Liquidating Credit Unions (Acct. No. 113)	\$10.00

This entry may be deferred until the loan is paid in full, or the entry may be made for a group of loans with the discount transferred to income after all of the loans in the group have been collected.

Detailed Transactions

MODIFIED CASH BASIS

Credit:

- a) At the end of each month with interest and late charges collected during the month.
- b) Currently, or periodically, with appropriate portion. of discount on loans purchased. (See Section 4050.4.)

Debit:

- a) With charges assessed by any person or organization covering the cost of collecting loans.
- b) With balance of account when books are closed (transfer to the Net Income (Loss) account).

ACCRUAL BASIS OF ACCOUNTING

For a credit union following the accrual basis, this account reflects the amount of earned interest on notes purchased from liquidating credit unions. The accrual procedures for this account are the same as those described in the previous section for Account Nos. 111 and 112.

Detailed Transactions

Credit:

- a) At the end of the month with interest earned on outstanding balances of loans purchased from liquidating credit unions.
- b) With adjustments, subject to approval of the board of directors, when the periodic inventory made to verify accrued interest exceeds the balance of the account.

Debit:

- a) With adjustments to charge off interest accrued when loans purchased are charged off with the approval of the board of directors.
- b) With adjustments, subject to the approval of the board of directors, when the periodic inventory is less than the balance of that account.
- c) With balance of account when books are closed (transfer to the Net Income (Loss) account).

114-INTEREST ON REAL ESTATE LOANS

114.1-INTEREST ON REAL ESTATE LOANS OVER 12 YEARS

114.2-INTEREST ON REAL ESTATE LOANS 12 YEARS AND UNDER

The above accounts should be used to show net income on the types of loans shown. Accounting for the incomes separately facilitates computing the yield on this type of loan.

These accounts should be credited with the actual amount of interest received or accrued on real estate loans. Net origination fees (costs) should be credited to this account in accordance with the interest method. See discussion under Section 4050.4, Account Number 703.1, "Net Origination Fees (Costs)-Real Estate Loans Over 12 Years."

115-INTEREST ON LOANS AND OTHER OBLIGATIONS PURCHASED (100%)

This account should be used to record the interest income received or accrued on loans or other obligations purchased to which the credit union has full title (seller assigned the note and supporting documents to the credit union). The income earned or received will be derived from assets recorded in "Loans or Other Obligations Purchased", (Account No. 714), "Premiums on Loans Purchased", (Account No. 714.1) and "Discount on Loans Purchased", (Account No. 714.2).

Usually the loans purchased will still be serviced by the original seller. Therefore, the interest and loan principal due will be collected by the servicer and forwarded to the purchasing credit union, net of any contracted service fees. Refer to Section 6000 of this manual for illustrative accounting entries regarding the use of this account.

116-INTEREST ON LOAN PARTICIPATIONS PURCHASED

Interest income earned or received from loans in which the credit union has only a participating interest should be recorded in this account. This will primarily consist of loan participations recorded in "Loan Participations Purchased", (Account No. 715) and necessary entries from (Account Number 715.1), "Premium on Loan Participations Purchased" and (Account Number 715.2), "Discount on Loan Participations Purchased", if applicable. Refer to Section 6000 for an illustrative account entry for this account and to Figure 6-7 in Section 6000 for an example as to how interest is separated from the principal payment by the seller, who retains title to the loan(s).

117-SERVICE INCOME ON LOANS SOLD AND PARTICIPATIONS

This account should be used to record the income earned from fees paid by a purchaser for the servicing of loans that were purchased from the credit union. Reference should be made to section 6000 for illustrative Journal and Cash Record entries.

118-INTEREST INCOME ON OTHER MISCELLANEOUS NONMEMBER LOANS

This account contains the interest income on nonmember loans that may be outstanding.

119-INTEREST REFUNDS

This account reflects the amount of interest refunds for the accounting period based upon action by the board of directors or entries made on a monthly basis to estimate an interest refund which will be made in a dividend period. The entry recording the interest refunds is made as of the last day of the dividend period. When the board of directors defers action to declare interest refunds until the first month following the dividend period, this entry should be made retroactively as of the close of the affected dividend period. The offsetting entry for interest refunds declared and recorded in this account is made to "Interest Refunds Payable," (Account No. 830). Refer to (Account No. 830), "Interest Refunds Payable" as well as Sections 5700.2 and 5700.3.

At the option of the board of directors, the estimated interest refunds anticipated to be paid for any dividend period may be recorded by entries to spread the cost over the dividend period. Under this optional procedure the appropriate portion of the next anticipated interest refund will be recorded each month by charging this account and crediting "Other Accrued Expenses", (Account No. 859); e.g., for a 6-month period, one-sixth of the anticipated amount of the next interest refund would be recorded each month, or if a 10 percent refund is planned for the dividend period, an entry for 10 percent of interest on loans for the month could be recorded as a debit to Account No. 119 and credit to Account No. 859. When the actual amount of the interest refund is determined at the end of the accounting period, the estimated amounts must be adjusted by an appropriate debit or credit to this account for the difference between the estimate and the actual amount. The adjustment and the actual amount of the refund as of the end of the accounting period would be recorded as described below.

Entries in this Journal and Cash Record

The amount declared for payment by the board of directors is recorded by entry in the "Miscellaneous Credit" column of the Journal and Cash Record by a debit to this account, with an offsetting credit to "Interest Refunds Payable", (Account No. 830). When the board of directors defers action to declare the interest refund payable until the first month following the dividend period affected, this entry is made retroactively as of the close of the affected dividend period.

Posting to the General Ledger

The charge to this account in the "Miscellaneous Debit" column of the Journal and Cash Record should be recorded as of the close of the accounting period to which applicable.

Illustrative Entries

-
- a) When a refund of interest to borrowers is authorized by the board:

Dr. - Interest Refunds	
(Acct. No. 119)	\$2,000.00
Cr. - Interest Refunds Payable	
(Acct. No. 830)	\$2,000.00

- b) When the interest refund is paid in cash or credited to share accounts:

Dr. - Interest Refunds Payable (Acct. No. 830)	\$2,000.00
Cr. -Cash (Acct. No. 731)	\$2,000.00

or

Cr. - Shares (Acct. No. 901-909)	\$2,000.00
----------------------------------------	------------

- c) To record a monthly estimated interest refund, where the board estimates that a 5% interest refund will be paid at the end of some future dividend period, and gross interest on loans (Acct. No. 111) for the month is \$5,000:

Dr. - Interest Refunds (Acct. No. 119)	\$250.00
Cr. - Interest Refunds Payable (Acct. No. 830)	\$250.00

An entry based on the above sample computation would be made each month. The credit union may have certain categories of loans where the board has determined that an interest refund will not be given (such as delinquent loans, or on certain interest-rate categories. In this case, adjusted estimates of the above entry would be made.

Detailed Transactions

Debit:

- a) With total interest refunds authorized by the board of directors (contra entry to “Interest Refunds Payable”, (Account No. 830)).

Credit:

- a) With the balance of the account to close it to “Net Income (Loss)”, (Acct. No. 960) at the end of the accounting period.

NOTE: The above debit entry may be recorded based on an estimate (see illustrative entry No. 3). This requires an adjustment based on actual interest refunds distributed by an appropriate debit or credit to this account in the next accounting period for the difference between the estimate and actual amounts, with an offsetting entry to “Interest Refunds Payable” (Account No. 830).

120-INVESTMENT INCOME

121-INCOME FROM U.S. GOVERNMENT OBLIGATIONS

122-INCOME FROM FEDERAL AGENCY SECURITIES

These accounts are used to record the interest earned on the investment of credit union funds in United States Government Obligations and Federal Agency Securities.

Entries in the Journal and Cash Record

- a) To amortize the premium cost relating to the purchase of U.S. Government Obligations. For example, if a \$10,000 bond is purchased for \$11,000, the premium of \$1,000 should be written off as an offset to income from investments over the period from acquisition to maturity or to the earliest call date. The entry to record the amortization should be related to the period for which interest income is recorded; if interest is received semiannually and the amortization period is 10 years, the entry would be:

Dr. - Income from U.S. Government	
Obligations (Acct. No. 121)	\$50.00
Cr. - Premium on Held-to-Maturity	
Securities (Acct. No. 741.2)	\$50.00

- b) To record bond appreciation when U.S. Government Obligations are purchased at a discount, the amount of the discount should be transferred as an addition to current interest income on investments over the period from the date of acquisition to maturity of the bonds; e.g., bond discount of \$1,800.00 where the period from acquisition to maturity date is 12 years, may be recorded semiannually as follows:

Dr. - Discount on Held-to-Maturity	
Securities (Acct. No. 741.1)	\$75.00
Cr. - Income from U.S. Government	
Obligations (Acct. No. 121)	\$75.00

- c) To record semiannual amortization of premium paid when Federal Agency Securities were acquired; assume \$600.00 premium paid in connection with purchase of \$10,000 par value of securities with a maturity date 10 years after date of acquisition.

Dr. - Income from Federal Agency	
Securities (Acct. No. 122)	\$30.00
Cr. - Premium on Held-to-Maturity	
Securities (Acct. No. 742.2)	\$30.00

- d) To record appreciation of Federal Agency Securities purchased at a discount:

Dr. - Discount on Held-to-Maturity	
Securities (Acct. No. 742.1)	\$25.00
Cr. - Income from Federal Agency	
Securities (Acct. No. 122)	\$25.00

NOTE: This entry assumes \$500.00 of discount appreciated over 10-year period by semiannual entries.

Detailed Transactions

MODIFIED CASH BASIS

Credit:

- a) With interest earned on the investment asset as the transactions occur.
- b) With the accretion of discount applicable to the period covered by each interest collection on the related securities. Contra debit should be to applicable securities asset account.

Debit:

- a) With amortization of premium applicable to the period covered by each collection of interest on the related securities. Contra credit should be to the securities asset account.
- b) With balance of account when books are closed (transfer to the Net Income (Loss) account).

ACCRUAL BASIS OF ACCOUNTING

Credit unions using the accrual basis of accounting can record income earned on a monthly basis or, alternatively, at least quarterly at the end of each regular share account dividend period. When appreciation-type bonds are held as an investment, the value increases quarterly as shown in the table of redemption values. To accrue income for months between the quantity increases, debit "Accrued Income on Investments", (Account No. 782) and credit "Income from U.S. Government Obligations", (Account No. 121). At the end of each quarterly period, those entries can be reversed and the actual appreciation recorded through a debit to "United States Government Obligations", (Account No. 741) and a credit to Account No. 121.

For current income and general types of obligations as well as Federal Agency Securities, accrued income should also be periodically recorded by debiting Account No. 782 and crediting Account No. 121 or 122, respectively. When actual interest payments are received, the accrual entries should be reversed and the receipt of the cash should be recorded as a debit to "Cash", (Account No. 731) and a credit to Account No. 121 or 122.

123-INCOME FROM INVESTMENT IN NCUSIF

This account is used to record redistributions (dividends) of NCUSIF equity to insured credit unions when the NCUA Board makes an annual, proportionate adjustment of the amount necessary to reduce the NCUSIF to its normal operating level.

Illustrative Entries

Dr. - Cash (Acct. No. 731) or Accrued Income on NCUSIF (Acct. No. 788)	\$450.00
Cr. - Income from Investment in NCUSIF (Acct. No. 123)	\$450.00

NOTE: Accruals should not be recorded in anticipation of dividends.

Detailed Transactions

Credit:

With redistributions of NCUSIF equity that have been declared by the NCUA Board of Directors.

124-INTEREST ON TRADING SECURITIES

This account is used to record interest earned from trading account securities. The income is generally received in the form of cash and should be recorded separately from trading income.

Illustrative Entries

Dr. - Cash (Acct. No. 731)	\$2,000.00
Cr. - Interest on Trading Securities (Acct. No. 124)	\$2,000.00

Detailed Transactions

Credit:

With interest earned on trading securities.

125-INCOME FROM COMMON TRUST INVESTMENTS

This account is used to record income earned from investments in common trusts and mutual funds

Illustrative Entries

Dr. - Cash (Acct. No. 731)	\$500.00
Cr. - Income from Common Trust Investments (Acct. No. 125)	\$500.00

Detailed Transactions

Credit:

With interest income earned/received on common trust or mutual fund investments.

126-INCOME FROM SHARES/DEPOSITS/CERTIFICATES OF CORPORATE CREDIT UNIONS

This account is used to record dividends and interest earned/received from deposits and investments in corporate credit unions.

Illustrative Entries

Dr. - Shares/Deposits/Certificates of Corporate Credit Unions (Acct. No. 744)	\$100.00
Cr. - Income from Shares/ Deposits/Certificates of Corporate Credit Unions (Acct. No. 126)	\$100.00

Detailed Transactions

Credit:

With dividends and interest credited to the credit union's investment in shares and deposits in corporate credit unions.

127-INCOME FROM SHARES, DEPOSITS, AND CERTIFICATES OF OTHER CREDIT UNIONS

This account is used to record dividends and interest earned/received from investments in other federally-insured credit unions, excluding corporate credit unions.

Illustrative Entries

Dr. - Shares/Deposits, or Certificates of Other Credit Unions (Acct. No. 745)	\$50.00
Cr. - Income from Shares/ Deposits/Certificates of Other Credit Unions (Acct. No. 127)	\$50.00

Detailed Transactions

Credit:

With dividends and interest credited to the credit union's investment in shares and deposits of a federally-insured credit union.

128-INCOME FROM OTHER SHARES/DEPOSITS/CERTIFICATES

This account is used to record dividends and interest earned/received from deposits and investments in commercial banks, savings and loan associations, and mutual savings banks.

Illustrative Entries

Dr. - Cash (Acct. No. 731)	\$1,000.00
Cr. - Income from Other Deposits/Certificates of Shares/Deposits/Certificates (Acct. No. 128)	\$1,000.00

Detailed Transactions

Credit:

With income earned/received on deposits and investments in commercial banks, savings & loan associations, or mutual savings banks.

128.1-INCOME FROM INVESTMENTS IN CREDIT UNION SERVICE ORGANIZATIONS (CUSO)

This account is used to record income earned or received on a loan or investment in a credit union service corporation accounted for under either the Equity Method or the Cost Method of accounting for specialized long-term investments. The recorded income is based on the transactions recorded in "Investments in Credit Union Service Corporation", (Account No. 748) and its subsidiary account,

Account No. 748.2. The Equity Method of accounting for specialized long-term investments will result in a change in the investment balance of the Asset Account (asset balance increases or decreases depending on whether the service corporation's operations result in a net income or net loss, respectively, during an accounting period). Refer to Section 6050 of this manual for discussions and illustrative accounting entries regarding the use of this account.

129-INCOME FROM OTHER INVESTMENTS

This account is used to record income from investments that are not identified in any other 120 series account.

Illustrative Entries

Dr. - Cash (Acct. No. 731)	\$120.00
Cr. - Income from Other Investments (Acct. No. 129)	\$120.00

Detailed Transactions

Credit:

- a) With income from other credit union investments not covered in any other 120 series account.

130-FEES AND CHARGES

131-OTHER FEES AND CHARGES

This account shows the income from the collection of membership fees and late charges on credit union loans for the accounting period. Late charges collected on loans purchased from other credit unions are entered in "Income from Loans of Liquidating Credit Unions", (Account No. 113). Collection expenses relating to loans of the credit union are included in "Collection Expenses", (Account No. 282). Such costs relating to loans purchased from other credit unions should be charged to Account No. 113.

Entries in the Journal and Cash Record

The amounts of fees and late charges collected, as shown in the daily summary cash received vouchers, are recorded in the special column of the Journal and Cash Record provided or designated for such purpose.

Posting to the General Ledger

The total charges for the month as shown by the Journal and Cash Record are posted at the end of each month by a credit to this account in the General Ledger.

Illustrative Entries

When a membership fee or late charge is collected in cash:

Dr. - Cash (Acct. No. 731)	\$10.00
Cr. - Fees and Charges (Acct. No. 131)	\$10.00

Detailed Transactions

Credit:

- a) With total collections of fees and charges at the close of each month.

Debit:

- a) With balance of account when books are closed (transfer to the Net Income (Loss) account).

132-LOAN ORIGATION FEES

Income resulting from nominal, nonrefundable loan origination fees on loans to members, i.e., commercial, agricultural and consumer loans, should be credited to this account in full, as collected when the following criteria are met:

- a) The fees are nominal.
- b) The direct costs incurred are nominal.
- c) The maturity of the lending transaction is short term in nature.

For term loans, the net origination fee (costs) if material, should be deferred and amortized over the life of the loan by the interest method as an adjustment to yield. Refer to 700 series of accounts.

140-GAIN (LOSS) ON SALE OF LOANS AND OTHER ELIGIBLE OBLIGATIONS

141-GAIN (LOSS) ON SALE OF ELIGIBLE OBLIGATIONS

A federal credit union is authorized to sell, in whole or in part, eligible obligations of its members as well as real estate and student loans of nonmembers which it has purchased to facilitate packaging of a pool of loans to be sold or pledged on the secondary market. When real estate loans are sold on the secondary market or to third parties, the gain or loss on the sale is recorded in this account. The required refund of unpaid interest or service charges due to early payoff on the loan which has been sold should not be recorded in this account. Such refunds should be recorded in the expense account, "Refunds Real Estate Finance Charges", (Account Number 285).

Any unamortized net origination fees (costs) should be added (subtracted) to the amount received for purposes of computing the gain or loss. Accounts 703.1 and 704.1 have been established to account for unamortized net origination fees (costs). Section 6000 discusses the accounting for the sale of eligible obligations.

150-MISCELLANEOUS OPERATING INCOME

151-OTHER MISCELLANEOUS OPERATING INCOME

152-MISCELLANEOUS FEE INCOME

These accounts are used to record operating income of the credit union for which no specific account is provided. Miscellaneous fee income should be recorded in Account No. 152. Such items include unrepresented check fees and reimbursement fees (for costs of selling checks, cashing checks, and handling insurance), etc. Other miscellaneous income should be included in Account No. 151, e.g., interest on notes and contracts receivable.

Unpresented Checks

When the statutory period prescribed for the presentation of checks has expired, such items may be credited to this account with an offsetting debit to "Accounts Payable", (Account No. 801), (See discussion of unpresented checks under Account No. 801). Before the accounts of any unpresented checks are credited to this account, it needs to be determined whether an abandoned property law is in force in the state.

Interest on Insurance Premiums Receivable

Interest collected on reimbursable insurance premiums which have been advanced on behalf of member-borrowers is credited to this account.

Reimbursement Fees

Fees collected from members are credited to this account.

Entries in the Journal and Cash Record

This account is credited in the "Miscellaneous Credit" column with fees collected for the sale of checks or money orders, for the cashing of checks, for the sale of insurance to members and any other miscellaneous operating income. If credits to this account are numerous, one of the blank columns of the Journal and Cash Record or the continuation sheet can be used to accumulate these entries. In such a case, a blank column can also be used to record the credits to the special Cash account.

Illustrative Entries

- a) When a credit union receives payment for the printing of share drafts and charges a fee for this service:

Dr. - Cash (Acct. No. 731	\$21.00
Cr. - Accounts Payable (Acct. No. 801)	\$20.00
Cr. - Miscellaneous Fee Income (Acct. No. 152)	1.00

NOTE: The actual cost of printing the share drafts is set up as an accounts payable as shown and is remitted to the printer upon receipt of the finished order.

- b) When a check is cashed for a member for a fee or a reimbursement fee is collected for the purchase of insurance:

Dr. - Cash (Acct. No. 731	\$5.00
Cr. - Miscellaneous Fee Income (Acct. No. 152)	\$5.00

- c) When income is received for which no other income account is provided:

Dr. - Cash (Acct. No. 731	\$2.00
Cr. - Other Miscellaneous Operating Income (Acct. No. 151)	\$2.00

153-CREDIT CARD INTERCHANGE INCOME

This account is used to record interchange fees received from the credit union's credit card program.

154-MISCELLANEOUS OPERATING INCOME EARNED ON LEASES

160-SERVICE INCOME ON LOANS

161-SERVICE INCOME ON LOANS AND OTHER OBLIGATIONS SOLD

This account is used to record service fees received from persons or institutions that have purchased portions of the credit union loans. Refer to Section 6000.

162-SERVICE INCOME ON CREDIT CARD LOANS

This account is used to record the amortized portion of fees that are periodically charged to cardholders. These fees entitle the cardholders to use the card for a specified period of time.

163-SERVICE INCOME-NET COMMITMENT FEES

This account should be used to recognize net commitment fees as follows:

- a) When this commitment expires unexercised, the fee should be recognized in income upon expiration.
- b) When the likelihood of the commitment being exercised is remote, the commitment fee should be recognized over the commitment period on a straightline basis.c) When the amount of the fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, and if the percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as a credit to this account as of the determined date.
- c) When the amount of the fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, and if the percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as a credit to this account as of the determined date.
- d) Credit with the periodic amortization of commitment fees on lines of credit based on the straightline method.

170-TRADING PROFITS AND LOSSES

This account is used to record periodic changes in the fair value of trading securities and gains and losses resulting from the disposition of trading investments. Trading account securities should be marked to fair value monthly.

Illustrative Entries

-
- a) To record the write-down of trading securities to fair value. Assume that trading securities are presently carried at \$15,000 and current fair value is \$14,000.

Dr. - Trading Profits and Losses

Acct. No. 170) \$1,000.00

Cr. - Trading Securities

(Acct. No. 759) \$1,000.00

- b) To record the increase in the fair value of trading securities. Assume the current fair value of the securities has risen to \$17,000.

Dr. - Trading Securities

Acct. No. 759) \$3,000.00

Cr. - Trading Profits and Losses

(Acct. No. 170) \$3,000.00

Detailed Transactions

Credit:

With an increase in fair value of trading securities.

4050.2 OPERATING EXPENSE ACCOUNTS (200-300 SERIES)

200-OPERATING EXPENSES (CONTROL)

All operating expenses of the credit union are to be recorded in the General Ledger accounts in this series (200-300). The individual expense charges identified to each separate operating expense classification in the Journal and Cash Record should be posted individually or in summary total for the month to the related expense accounts in the General Ledger. At the option of the credit union, an Operating Expenses (Control) account and an Expense Ledger (Form FCU 104) may be used to summarize the detailed expense charges. The expense accounts in this series should be closed into "Net Income (Loss)" (Account No. 960) in accordance with the procedure outlined under Closing Entries in Section 5070.5.3.

4050.2.1 APPROVAL OF EXPENSES

The board of directors of each credit union is responsible for insuring that all expenses are reasonable in amounts and necessary to the operation of the credit union. Expenses incurred must be submitted to the board of directors for approval. For many routine recurring expenses, the approval may take place during the review of expenses at each monthly board meeting, which would constitute an after-the-fact approval of the expense items. On the other hand, larger or nonroutine expenditures should be specially authorized by the board before the obligation is incurred, unless the expenditure is contained in a budget which has previously been approved by the board.

Disbursements for expenses should be supported by invoices, receipts or vouchers giving a complete description and the details of the items involved. Reimbursements of officers, directors, committee members and employees for expenses incurred by them in connection with the conduct of credit union business or attendance at credit union affairs are permissible. Reimbursement can only be made when actual expenses of a reasonable amount are supported by an itemized expense account with supporting receipts and vouchers. A fixed or standard rate type reimbursement cannot be made to directors or officers for time spent in connection with attendance at credit union meetings or affairs.

In cases where credit union personnel receive expense funds in advance, an accounting should be made to the credit union promptly after the event for which the funds were advanced. If the funds advanced exceed the actual itemized expenses of a reasonable amount incurred by the individual, the unused balance of the advance should be returned to the credit union. On the other hand, if the actual itemized expenses of a reasonable amount incurred exceed the amount of the advance, the individual should be reimbursed for the additional amount covered by his accounting.

Substantial expenses applicable to the current accounting period which will not be paid promptly should be charged to the appropriate expense account and credited to Accounts Payable at the time the expense is incurred.

Income should not be netted against expenses for individual items such as share drafts, data processing, arbitrage activities, etc. Such a netting procedure is not consistent with GAAP, circumvents the Regular Reserve transfer, and distorts income and expense. Rather, all income, expenses, gains and losses affecting each accounting or dividend period should be recorded through income and expense accounts. (Cross-reference Section 2070.1.1.)

Entries in the Journal and Cash Record

Each account in this series should be debited in the "Operating Expenses (Control)" column of the Journal and Cash Record when an expense is paid or incurred. Such accounts should be credited with the amount of adjustments and refunds made. The specific account classification of each item should be shown in the column headed "Accounts."

Debits to the "Operating Expenses (Control)", (Account No. 200) should be recorded as normal entries, but credits should be entered in red or in parentheses. When totaling the column at the month end, the items in red or in parentheses should be deducted from other items to reach a net total of charges for the month.

Posting to the General Ledger

The total of the operating expense charges and credits recorded in the Journal and Cash Record should be posted to the appropriate accounts in the General Ledger at the end of each month.

Illustrative Entries

-
- a) When a check is issued in payment of any classification of operating expenses, e.g., payment for rental of office quarters:

Dr. - Rent (Acct. No. 251)	\$125.00
Cr. - Cash (Acct. No. 731)	\$125.00

- b) Whenever a cash refund is received representing an overpayment of an operating expense; e.g. overpayment of utility expenses:

Dr. - Cash (Acct. No. 731)	\$16.25
Cr. - Utilities (Acct. No. 253)	\$16.25

- c) To record depreciation of furniture and equipment:

Dr. - Depreciation of Furniture and Equipment (Acct. No. 266)	\$65.00
Cr. - Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	\$65.00

- d) To record amount of adjustment to increase the Allowance for Loan Losses account:

Dr. - Provision for Loan Losses	
(Acct. No. 300)	\$175.00
Cr. - Allowance for Loan Losses	
(Acct. No. 719)	\$175.00

- e) When any part or the entire amount of the "Unamortized Organization Costs", (Account No. 768) is written off:

Dr. - Miscellaneous Operating	
Expenses (Acct. No. 370)	\$12.50
Cr. - Unamortized Organization	
Cost (Acct. No. 768)	\$12.50

- f) When an expense is incurred for promotional or advertising material and the check in payment is not immediately forwarded:

Dr. - Publicity and Promotions	
(Acct. No. 272)	\$108.50
Cr. - Accounts Payable	
(Acct. No. 801)	\$108.50

Detailed Transactions

MODIFIED CASH BASIS

Debit:

- a) With charges to each expense classification as recorded in the Journal and Cash Record at the close of each month. These charges should include transactions disbursed in cash as well as expense transactions not involving cash disbursements, such as entries to depreciate fixed assets, establish or increase the allowance for loan losses, etc.

Credit:

- a) With credit entries to each expense classification as recorded in the Journal and Cash Record at the close of each month.
- b) With balance of account when books are closed (transfer to the Net Income (Loss) account).

Detailed Transactions

Credit unions following the accrual basis of accounting should record significant amounts of operating expenses in such a manner as to allocate the expenses to the period to which applicable regardless of when due and payable. This should be accomplished by recording expenses as accounts payable or accrued expenses if the amounts have not been paid, or as prepaid or deferred charges if paid but applicable to future periods.

ACCRUAL BASIS OF ACCOUNTING:

Debit:

- a) With charges to each expense classification as recorded in the Journal and Cash Record at the close of each month. These charges should include transactions disbursed in cash as well as those expense transactions not involving cash, such as entries to record accruals of unpaid bills, to depreciate fixed assets, to establish or increase the allowance for loan losses, to write off to cost appropriate amounts previously recorded as prepaid or deferred expenses, etc.

Credit:

- a) With credits to each expense classification as recorded in the Journal and Cash Record at the close of each month. These entries will include both cash refunds of operating expenses and other transactions, such as adjustments of accruals, decreases in the allowance for loan losses, etc.
- b) With balance of account when books are closed (transfer to the Net Income (Loss) account).

Expense Ledger (FCU 104)

A subsidiary record of expenses is useful to analyze the expenses and to prepare the expense section of the Statement of Income. The optional Expense Ledger (Form FCU 104) is provided for this purpose.

When posting to the Expense Ledger all debits and credits are entered in the "Expense Total" column and the proper amounts are extended in the distribution columns to the right. The credit postings are entered in red or in parentheses and subtracted from the total of the other items in the columns involved. The grand total of the distribution columns must be the same as the total of the "Expense Total" column of the Expense Ledger and this total must agree with the balance of the "Operating Expenses (Control)", (Account No. 200).

Expense Classification-The Expense Ledger provides separate columns for the primary classifications of the expenses occurring in the operations of the credit unions. Columns for expense categories for which subordinate expense classifications are required by the chart of accounts also provide a designator column for use in identifying the particular subclassification of expense relating to each entry. The subclassification account numbers should be inserted in the space provided to enable the credit union to analyze its expenses within each primary classification. The columnar totals should be used for Preparing the Statement of Income. This Statement provides only for reporting the primary classifications (accounts in the 200 through 400 series with a zero as the third digit).

210-COMPENSATION

211-SALARIES

This classification is to include all compensation of the treasurer and the salaries of all credit union employees such as the manager, assistant treasurer, bookkeepers, tellers and other office employees. This account should include that portion of compensation which represents social security taxes withheld from employees' pay. See "Social Security Taxes Payable", (Account No. 846).

212-REIMBURSEMENT TO SPONSOR FOR SERVICES

When credit union employees are on the sponsor company's payroll and the company bills the credit union a lump sum for the salary, fringe benefits and other services it provides, reimbursement by the credit union should be recorded in this account. If the sponsor company's billing shows a breakdown so that the credit union can determine the amount of salary and miscellaneous benefits, the reimbursement should be classified in the appropriate expense subsidiary categories.

219-OTHER COMPENSATION

220-EMPLOYEE BENEFITS

221-PENSION PLAN COSTS

This classification includes all charges to expense relating to the credit union's pension plan. Although the plan termination insurance and the contingent liability insurance could be included in this category, it is recommended that these two insurance costs, along with fiduciary liability insurance, be included in "Insurance", (Account No. 265). Refer to Section 6140 for further information on Pensions.

222-SOCIAL SECURITY TAXES (EMPLOYER'S SHARE)

This classification includes only the employer's (credit union's) share of social security taxes which are paid on salaries. Social security taxes withheld from the employee's salaries should not be recorded in this account, but should be included in "Salaries", (Account No. 211). See "Social Security Taxes Payable", (Account No. 846).

223-UNEMPLOYMENT COMPENSATION TAXES

This classification includes the employer's (credit union's) costs for Federal and state unemployment compensation taxes which are paid by the credit union on salaries.

224-OTHER EMPLOYEE BENEFITS

This classification includes the costs to the credit union of other benefits provided to employees; e.g., group life insurance costs.

230-TRAVEL AND CONFERENCE EXPENSES

231-EMPLOYEES' TRAVEL AND CONFERENCE EXPENSES

This account includes authorized expenses incurred by credit union employees (other than officers and directors) for travel, attendance at conferences and other meetings.

232-OFFICERS AND DIRECTORS' TRAVEL AND CONFERENCE EXPENSES

This classification includes authorized expenses incurred by officers (including the Treasurer) and directors for travel, attendance at conferences and other meetings. (Note: The expenses of officers and directors in connection with efforts to correct loans should not be included in this account but should be charged to "Collection Expenses", (Account No. 282).)

239-OTHER TRAVEL AND CONFERENCE EXPENSES**240-ASSOCIATION DUES**

This classification includes the membership dues and other fees paid to a credit union organization of which the credit union is a member.

250-OFFICE OCCUPANCY EXPENSES**251-RENT**

This classification includes the cost of rent for space occupied.

252-MAINTENANCE OF BUILDING

This classification includes all costs incurred relating to the maintenance of a building owned or occupied by the credit union.

253-UTILITIES

This classification includes all utility costs related to space occupied by the credit union for heat, light, water, etc.

254-DEPRECIATION OF BUILDINGS

This classification includes the aggregate amount written off to expense in the current period for the depreciation of buildings owned by the credit union.

255-AMORTIZATION OF LEASEHOLD IMPROVEMENTS

This classification includes the prorated portion of leasehold improvement costs that are charged to the current period. Leasehold improvement costs should be systematically amortized over the assets' useful lives or the period covered by the lease agreement, whichever period is less.

256-REAL ESTATE TAXES

This expense account includes the costs of real estate taxes on buildings owned by the credit union.

257-DEPRECIATION EXPENSE FOR LEASED ASSETS

This account includes the prorated portion of leased asset costs that are charged to the current period. The costs of leased assets should be systematically depreciated over the assets' useful lives or the period covered by the lease agreement, whichever period is less. Assets included in this category should be directly related to space and/or building occupancy. For other leased assets, refer to Account No. 262.

259-OTHER OFFICE OCCUPANCY EXPENSES

This account should include all other office occupancy costs that are charged to the current period, not specifically accounted for in account numbers 250 through 257 inclusively.

260-OFFICE OPERATIONS EXPENSES

261-COMMUNICATIONS

This classification includes all charges for telephone, telegraph, and postage expense.

262-RENTAL OF FURNITURE AND EQUIPMENT

This classification includes the cost of leased furniture and equipment. It does not, however, include the cost of leases that are, or should be, carried as Capital Leases. Refer to Section 6090.2, "Types of Leases."

263-MAINTENANCE OF FURNITURE AND EQUIPMENT

This classification includes costs incurred for maintenance of office machines and other equipment, including the cost of service contracts.

264-STATIONERY AND SUPPLIES

This classification includes the cost of stationery, paper, printed forms, binders, pencils, calendar pads, ink, and other supplies incidental to the operation of the credit union.

265-INSURANCE

This subsidiary classification includes all insurance premiums except share insurance, loan protection, life savings and chattel lien nonfiling insurance. It will include such insurance as surety bond coverage, compensation, fire, windstorm, public liability, property damage, burglary, robbery, etc. See "Other Prepaid Insurance", Account No. 766, concerning the handling of surety bond premiums paid in advance.

266-DEPRECIATION OF FURNITURE AND EQUIPMENT

This account includes the aggregate amount of furniture and equipment depreciation expense that is charged to the current accounting period. Corresponding credits are recorded in the “Allowance for Depreciation of Furniture and Equipment”, Account No. 775. For additional information, refer to the “Furniture and Equipment”, Account No. 774.

268-BANK SERVICE CHARGES

This classification includes charges made by the bank, usually against the credit union’s bank account, for services in connection with handling the account. Normally, these charges are listed on the bank statement and should be recorded in the Journal and Cash Records promptly after receipt of the bank statement. The corresponding credit is recorded in Cash Account No. 731.

269-OTHER OFFICE OPERATIONS EXPENSES

This account should include all the other office operating costs that are charged to the current period, not specifically accounted for in Account Nos. 260 through 268.

270-EDUCATIONAL AND PROMOTIONAL EXPENSES

271-ADVERTISING

This classification includes expenses incurred for advertising, such as advertisements or notices in newspapers, periodicals, radio or television.

272-PUBLICITY AND PROMOTIONS

This classification includes the costs that are chargeable to the current accounting period for educating the members in the functions and purposes of credit unions. Additionally, this account is used to allocate the cost of nominally priced promotional items to the current accounting period.

NOTE: The expenses of directors and committee members, including travel and meals away from home, in connection with meetings of the official staff of the credit union and similar expenses of such officials in attendance at chapter, league and other credit union affairs should not be included in this classification. These latter expenses should be included under Account Nos. 231 or 232. Other educational and training costs should be recorded in Account No. 279, “Other Educational and Promotional Expense.”

279-OTHER EDUCATIONAL AND PROMOTIONAL EXPENSES

This account includes all other educational and promotional costs chargeable to the current accounting period that are not specifically accounted for in either Account No. 271 or 272.

280-LOAN SERVICING EXPENSES

282-COLLECTION EXPENSES

This classification includes the costs incidental to the collection of delinquent loans. Generally, this includes expenses of officials and employees incurred in connection with efforts to collect loans. Such costs are usually not recoverable from the borrower. Collection costs which have been advanced to an outside source may also be charged to this account. (See Section 5100.1, "Collection of Loans by Outside Sources.")

283-RECORDING FEES-CHATTEL LIEN INSURANCE

This classification includes the cost of recording liens on personal or real property accepted as security for loans. It also includes the premiums on chattel lien nonfiling insurance policies.

284-CREDIT REPORTS

This classification includes costs of credit reports obtained by the credit union.

285-REFUNDS-REAL ESTATE FINANCE CHARGES

This classification includes refunds made to members on real estate loans where prepayment of the loans causes the maximum interest rate limitation to be exceeded because of points or service charges paid by the borrowers when the loans were made.

286-CREDIT CARD PROGRAM EXPENSES

This account is used to record appropriate credit card program expenses. Refer to Section 6030 for illustrated accounting entries. Such expenses will include the cost of the cards, separate billing statements, or service fees paid in connection with the program.

287-SERVICE FEES ON LOANS PURCHASED

This account is used to record service fee expenses incurred as the result of purchasing loans that are being serviced by another person or financial institution.

289-OTHER LOAN SERVICING EXPENSES

This classification includes all other loan servicing costs that are chargeable to the current period but, which are not specifically accounted for in Account Nos. 282 through 287.

290-PROFESSIONAL AND OUTSIDE SERVICES

291-LEGAL FEES

This classification includes the cost of legal services applicable to the general operations of the credit union. Attorney fees and court costs which are related to the credit union's efforts to collect loans may be charged to this account if not recovered from the individual borrowers, or these cost may be treated as losses on loans and charged to "Allowance for Loan Losses", (Account No. 719).

292-AUDIT FEES

This account should be charged with the costs incurred relating to an audit or audits of the credit union's records, usually the supervisory committee audit and/or the verification of the members' accounts, which are performed by an outside accounting firm or other professionals.

293-ACCOUNTING SERVICES

This classification includes expenses incurred for the performance of accounting services for the credit union by an outside person or firm. Expenses incurred in connection with a jointly owned accounting service center (as provided in Section 701.27 of NCUA Rules and Regulations) should also be included in this account. Charges assessed by a service center for performing data processing services for the credit union represent another example of an expense to be classified in this account.

294-MANAGEMENT CONSULTING FEES

This classification includes costs incurred by the credit union for the services of management consultants.

299-OTHER PROFESSIONAL AND OUTSIDE SERVICES

This account should include other professional and outside service costs that are allocated to the current accounting period but, which are not accounted for in Account Nos. 291 through 294.

300-PROVISION FOR LOSSES

301-PROVISION FOR LOAN LOSSES - CONSUMER LOANS

302-PROVISION FOR LOAN LOSSES - LINES OF CREDIT

303-PROVISION FOR LOAN LOSSES - REAL ESTATE LOANS

304-PROVISION FOR LOAN LOSSES - MOBILE HOME LOANS

305-PROVISION FOR LOAN LOSSES OTHER LOANS

The above accounts are used to record the periodic charge(s) to operating expense necessary to maintain a reasonable allowance for loan losses. The amount of the current period provision should be adequate to establish or to increase the allowance to a sufficient level to cover estimated losses inherent in the loan portfolio. The use of subaccount numbers 301 through 305 are optional. However, their use provides valuable information when conducting loan analysis.

The accounts should be charged only with amounts required to establish or increase the balance of "Allowance for Loan Losses", (Account No. 719) in order to provide for estimated potential losses to be sustained on outstanding loans and other receivables. The accounts should be credited only with amounts to decrease Account 719 to provide for such current estimated potential losses. All charge-offs of uncorrectible loans and other receivables as well as nonrecoverable costs chargeable to borrowers should be debited directly to Account No. 719 when cleared from the asset account(s) with the prior approval of the board of directors. Regular and consistent funding of the Allowance for Loan Losses should be carried out at least quarterly, and in some cases monthly, to ensure uniform charges to the Provision for Loan Losses over the annual accounting period.

Refer to the following sections for additional information:

- Section 2090.11, "Valuation Allowance" in the Accounting Principles and Standards section.
- Section 4050.4, "Account No. 719" in the General Ledger section.
- Section 5120.1, "Allowance for Loan Losses" in the General Accounting Procedures section.

309-OTHER PROVISION FOR LOSS

This account is used to record the estimated losses in collecting "Other Receivables" (This account should not be used in lieu of other 300-series accounts.) Estimated losses from receivables should be recorded at the end of each accounting period, or more frequently if the credit union is aware that a receivable is uncollectible.

310-MEMBERS' INSURANCE

311-SHARE INSURANCE

This classification includes the cost of the annual National Credit Union Share Insurance Fund premium paid by the credit union in connection with the insurance of share accounts under Title II of the Federal Credit Union Act.

NOTE: The annual share insurance fund capitalization deposit should be reflected in asset Account No. 752, "Investment in NCUA Share Insurance Capitalization."

312-LIFE SAVINGS INSURANCE

This classification includes the cost of premiums paid by the credit union for life savings insurance on the members. (Dividends on life savings insurance are discussed under the next expense classification, Account No. 313-"Borrowers' Insurance.")

313-BORROWERS' INSURANCE

This classification includes the cost of premiums paid by the credit union for life insurance protection on the borrowing members. Dividends on life savings insurance and borrowers' protection insurance (credit union insurance) will be subject to special handling. Since such dividends are, in effect, a return of a portion of the premiums paid, they may be credited to the appropriate expense classification, Account Nos. 312 or 313. The offsetting debit should be to "Other Assets", (Account No. 799), if the dividends is in the form of a credit memo, or to "Cash", (Account No. 731), if the dividend is received by check. The dividend amount charged to Account No. 799 should be cleared when the credit memo is used in lieu of cash for the payment of future premiums.

If a dividend or refund of premium applies to both borrowers' protection and life savings insurance without a breakdown being furnished by the insurance company, the amount may be according to prorated portions of the combined year-to-date costs. If, however, a credit union desires to do so, the dividends may be recorded as "Other Miscellaneous Operating Income", (Account No. 151) rather than a credit to the expense account(s).

319-OTHER MEMBERS' INSURANCE

This account includes the cost of all other member insurance that is paid by the credit union and chargeable to the current accounting period and not recorded in Account Nos. 311 through 313.

320-FEDERAL OPERATING FEE EXPENSE

This account includes the annual operating fee assessed by NCUA in accordance with Section 105 of the Federal Credit Union Act. The computation of the operating fee will be provided to federally chartered credit unions on NCUA Form 1305, Share Insurance/Operating Fee Invoice. The fee is payable on or before January 31 of each insurance year. Credit unions using the accrual basis of accounting may defer the annual fee as a prepaid expense if the fee is \$500 or more.

Illustrative Entries

- a) To record the annual payment of the fee to NCUA.

Dr. - Federal Operating Fee Expense	
(Acct. No. 320)	\$600.00

or

Dr. - Other Prepaid Expenses	
and Deferred Charges	
(Acct. No. 769)	\$600.00
Cr. - Cash (Acct. No. 731)	\$600.00

- b) To record the periodic expensing of the prepaid operating fee.

Dr. - Federal Operating Fee Expense (Acct. No. 320)	\$50.00
Cr. - Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	\$50.00

Detailed Transactions

Debit:

- a) With the payment of the operating fee (cash or modified cash basis of accounting).
- b) With amortization of monthly expense (accrual basis of accounting).

330-CASH OVER AND SHORT

This classification includes the amount of cash which is either over or short in connection with each day's collections. At the end of each day's business, the Cash Received Vouchers, or its equivalent, are totaled and the result checked with the cash on hand. If the cash on hand is greater than the total of the vouchers and the error is not located before the transactions for the day are recorded, an additional Cash Received Voucher or its equivalent is prepared for the amount of the overage. The words "Cash Over" are shown on the voucher in the "Received From" space. This voucher is included with other Cash Received Vouchers when preparing the summary voucher of the day's cash receipts and entered as "Cash Over" on the first blank line of the summary voucher.

If the total of the voucher is greater than the cash on hand and the error is not located before the transactions for the day are recorded, a Cash Received Voucher is prepared for the amount of the shortage. The words "Cash Short" are shown on the voucher in the "Received From" space. The amount of the shortage should also be written in red or parentheses opposite the "Total" fine. This voucher should be included with the Cash Received Voucher when preparing the summary voucher for the day's receipts. The words "Cash Short" should be entered on the first blank line of the summary voucher. The amount of the cash short should be entered in red or in parentheses on the summary voucher of the day's receipts in the amount column opposite "Cash Short". This amount should be a deduction from the other items. The net cash shown on the summary voucher should then agree with the cash on hand.

The amount of the cash short or over for each day should be recorded in the "Expense" column of the Journal and Cash Record. If the amounts represent overages, they should be entered in red or parentheses and should be deducted from the total of the other items.

When an error which has been recorded as a cash overage or a cash shortage is located, a Journal Voucher or its equivalent should be prepared to reverse the original debit or credit entry to this account. The correcting entry should be entered in the Journal and Cash Record from this Journal Voucher. For instance, if it is later discovered that a cash overage resulted from failure to prepare a Cash Received Voucher in connection with a payment received on shares, the Cash Over and Short account should be debited and the Shares account should be credited. Proper credit should also be recorded in the individual share account.

If numerous debit and credit entries are recorded as “Cash Over and Short” expense during the month, separate totals can be taken of the items in red or parentheses and those in black. The total of the red items can then be subtracted from the total of the black items to obtain the net overage or shortage. If there is a net overage at the end of the month, it should be shown in red or in parentheses opposite the appropriate caption in the “Operating Expenses” Section of the Statement of Income and should be deducted from other expense items.

At each regular monthly meeting of the board of directors, the cash overages and shortages must be reported to the directors’ for consideration and ratification. Some credit unions may find it informative to record cash over and short by teller. In this event, separate expense accounts in the Account No. 330 group may be established; e.g., Teller A-No. 331, Teller B-No. 332, Teller C-No. 333. Any abnormal overages and shortages will thus be promptly brought to the directors’ attention so that proper action can be taken in controlling operations and in complying with the terms of the credit union’s surety bond.

340-INTEREST ON BORROWED MONEY

This classification includes the interest cost to the credit union for borrowed money. This includes interest paid on promissory notes. (Cross-reference: Accounts in the 810 series, Notes and Interest Payable.)

341-IMPUTED INTEREST COSTS

Imputed interest costs are those which are derived from a computation of interest costs using an implicit interest rate. Interest costs result from the application of an approximated market interest rate to a note or other obligation of the credit union. The rate is used to discount the liability of the credit union to its present value. The Effective Interest Rate Method of computing interest (simple interest applied to the unpaid balance) is then used to determine the amount of periodic interest costs that should be recorded in this account. This approximates the cost of borrowing when the interest rate is not known’, or when the rate is unrealistically low for the type of transaction.

Imputed interest costs often occur with transactions that include the exchange of long-term obligations for goods or services and a rate of interest has not been stipulated by the contracting parties or the stated rate is unreasonable relative to the current market conditions. The imputed rate is used in conjunction with determining the market value of the note and the cost of borrowing. Typical transactions include the purchase of long-term leases or loans, e.g., student loans. The use of this account is illustrated in Section 6000.

342-OTHER INTEREST ON BORROWED MONEY

This account is used to record all interest costs other than those chargeable to Account No. 341. Typical interest costs would be associated with notes payable, mortgage notes payable, reverse repurchase agreements, and Fed Funds.

Illustrative Entries

-
- a) To record interest paid in conjunction with a mortgage note payable.

Dr. - Mortgage Notes Payable	
(Acct. No. 811)	\$400.00
Dr. - Other Interest on Borrowed Money	
(Acct. No. 342)	10.96
Cr. - Cash (Acct. No. 731)	\$410.96

Detailed Transactions

Debit:

- a) With periodic interest payments related to a note.

350-ANNUAL MEETING EXPENSES

This classification includes all costs incurred in connection with the annual meeting of shareholders; e.g., costs of rental of meeting room, printing of notices to shareholders, costs of carrying out and administering a mail ballot election program, etc.

360-TRUTH IN LENDING EXPENSE (TIL)

361 -TIL REIMBURSEMENT OF INTEREST OVERCHARGES

This classification includes reimbursement expenses for overcharges under Regulation Z-Truth in Lending enforcement for accounting periods subsequent to the first examination period in which reimbursement is required.

362-TIL RESTITUTION

This classification includes restitution costs for expenses incurred for other than interest overcharges under Regulation Z-Truth in Lending enforcement. These costs should be the result of activities within the current accounting period.

370-MISCELLANEOUS OPERATING EXPENSES

This classification includes miscellaneous expenses for which no separate expense classification is provided. The nature of the expense should be noted in the "Account" column-m of the Journal and Cash Record. If a particular type of expense shown in this miscellaneous grouping represents a comparatively large amount of the total for this group, it may be shown as a separate item. If, for example, any expenses are large in relation to the other items in Miscellaneous Operating Expense, these expenses may be charged to a special expense account established by the credit union under the appropriate main grouping of expense classifications. These expenses would then be merged with and reported in the total for the designated expense grouping in the Statement of Income for the period.

371-UNEXERCISED COMMITMENT FEES

This account should be used to expense commitment fees paid to borrow funds where the commitment expires unexercised.

372-COMMITMENT FEES ON BORROWED FUNDS

This account should be used to expense commitment fees paid to borrow funds where the commitment fees are expensed based on the straight-line method of amortization.

380-DIVIDEND EXPENSES

380.1-REGULAR SHARE DIVIDEND EXPENSE

380.2-SHARE DRAFT DIVIDEND EXPENSE

380.3-CLUB ACCOUNT DIVIDEND EXPENSE

380.4-IRA/KEOGH DIVIDEND EXPENSE

380.5-IRA/KEOGH CERTIFICATE DIVIDEND EXPENSE

380.6-SHARE CERTIFICATE DIVIDEND EXPENSE

380.7-MONEY MARKET DIVIDEND EXPENSE

380.8-OTHER DIVIDEND EXPENSE

The above account classifications include the amount of dividends for each type of share account chargeable to the current accounting period based upon action by the board of directors, estimates, or per contractual agreements. The entries recording the dividend expense should be made no later than the last day of each dividend period regardless of whether the dividends were actually authorized by the directors on that date, or before or after that date. Offsetting entries for charges to these accounts should be made to the appropriate dividend payable account (the 820 series) or, if dividends are credited to members' accounts on the last day of the dividend period, to the appropriate General Ledger Share Account. When the board of directors defers action to declare dividends until the first month following the dividend period, entries should be made retroactively as of the close of the affected dividend period.

At the option of the board of directors, the estimated dividends anticipated to be paid for any dividend period may be recorded by monthly entries to spread the cost over the months comprising the dividend period. Under this optional procedure, the dividends should be allocated to the month that the expense was incurred, regardless of whether the dividends were declared or not. Accordingly, estimated dividends should be charged to their appropriate dividend expense accounts monthly. When this procedure is used, the offsetting credit is to the appropriate dividends payable account (the 820 series). When the actual dividends are paid in cash or credited to shares, the balances in the appropriate dividends payable account should be cleared.

References:

- Section 2050.1.7.1, Accrued Dividends
- Section 4030.2.6, Accrued Expenses
- Section 4050.5, Liability Accounts

385-INTEREST ON DEPOSITS

This account normally is not applicable to federal credit unions. However, its use may be appropriate for allocating the cost of interest bearing deposits (deposits that are not considered shares) to the current accounting period.

4050.3-NONOPERATING INCOME AND EXPENSE ACCOUNTS (400 SERIES)

400-NONOPERATING INCOME (EXPENSE)

420-GAIN (LOSS) ON INVESTMENTS

This nonoperating income (expense) classification reflects the gain or loss during the accounting period on investments of the credit union.

Upon sale or other disposition of all investments except trading accounts, the difference between the carrying value of the investments disposed of and the proceeds received by the credit union should be credited to this account if a gain, or charged to this account if a loss. (NOTE: Gains or losses on the disposition of trading account investments are recorded in "Trading Profits and Losses", Account No. 170.)

This account also includes estimated losses resulting from prolonged material declines in market values of investment securities. When such losses are imminent, a schedule of investments needs to be furnished to the board of directors listing each investment as to the: (a) identification of the investment, (b) the credit union's dollar carrying value, (c) the estimated current market value, and (d) the estimated loss that will be sustained. The amount of the loss to be recorded needs to be approved by the board and is incorporated into the minutes based on the above schedule. It should be recorded by debiting "Gain (Loss) on Investments," (Account No. 420) and crediting the respective investment accounts.

When the credit union has investments in U.S. Government or Federal agency securities, the market value of the investments should be shown parenthetically next to the related asset category on the Statement of Financial Condition or in a note keyed to the related asset category on the statement.

This account also includes losses sustained as a result of a permanent decline in value of investment securities, which might occur in troubled debt restructuring. Troubled debt restructuring occurs when a creditor modifies the terms of an existing debt to be more favorable to protect his investment or portions of it. This occurs when a creditor is compelled by economic and legal considerations to grant relief to a debtor(s) who cannot satisfy the terms of a debt(s). In such cases of a permanent decline, the value of the security should be written down to the new market value by debiting this account and crediting the appropriate investment account. Changes in value of investments which are due only to unprolonged market interest rate fluctuations, rather than permanent changes in value, should be reflected by showing fair values of investments parenthetically, on a separate schedule, or by note on the Statement of Financial Condition. Gains or losses should be recognized only upon disposition of the securities.

Entries in the Journal and Cash Record

All entries to this account should be made in the "Miscellaneous Debit" or "Miscellaneous Credit" col. columns of the Journal and Cash Record based upon Cash Received Vouchers or Journal Vouchers prepared for each individual transaction.

Illustrative Entries

- a) To record net gain on sale of investments for the excess of proceeds received over the credit union's carrying value:

Dr. - Cash (Acct. No. 731)	\$1,000.00
Cr. - Held-to-Maturity Securities (Acct. No. 741)	\$960.00
Cr. - Gain (Loss) on Investments (Acct. No. 420)	40.00

- b) To record an estimated potential loss of a nontemporary nature on investments due to a decline in the expected realizable value as authorized by the board of directors:

Dr. - Gain (Loss) on Investments (Acct. No. 420)	\$2,000.00
Cr. - Investments in Credit Union Service Corporations (Acct. No. 748.1)	\$2,000.00

- c) To record loss on investments in loans to other credit unions:

Dr. - Cash (Acct. No. 731)	\$8,100.00
Dr. - Gain (Loss) on Investments (Acct. No. 420)	1,900.00
Cr. - Loans to Other Credit Unions (Acct. No. 747)	\$10,000.00

- d) To record a permanent decline in the value of an investment after the credit union learns that it will not collect the full amount:

Dr. - Gain (Loss) on Investments	
(Acct. No. 420)	\$1,000.00
Cr. - Loans to Other Credit	
Unions (Acct. No. 747)	\$1,000.00

or

Cr. - Investments in Credit Union	
Service Corporations	
(Acct. No. 748)	\$1,000.00

Detailed Transactions

Credit:

- a) With amounts of gains on sales or other dispositions of investments, representing the excess of proceeds received over net carrying value.
- b) With balance of account, if a debit, when books are closed (transfer to the Net Income (Loss) account).

Debit:

- a) With net losses on sales or other disposition of investments, representing the excess of credit union's carrying value of the investments disposed of over the proceeds received.
- b) With balance of account, if a credit, when books are closed (transfer to the Net Income (Loss) account).
- c) With the amount of a prolonged or permanent decrease in the value of investments.

430-GAIN (LOSS) ON DISPOSITION OF ASSETS

This nonoperating income (loss) account reflects the gain or loss during the accounting period on sales or other dispositions of miscellaneous assets of the credit union. Gains or losses on assets (including notes and other receivables) acquired in liquidation of loans should not be credited or charged to this account but should be recorded in "Allowance for Loan Losses", (Account. No. 719). Also, gains or losses on investments should be recorded in "Gain (Loss) on Investments", (Account No. 420) instead of to this account.

Entries in the Journal and Cash Record

All entries to this account should be made in the Miscellaneous Debit or Miscellaneous Credit column of the Journal and Cash Record (Form FCU 101) based on Cash Received Vouchers (Form FCU 105) or Journal Vouchers (Form 106A) prepared for each individual transaction.

Illustrative Entry

To record the net loss sustained on disposition of furniture and equipment. A typewriter, which was originally purchased for \$600.00, was sold for \$20.00. The allowance for depreciation at the date of sale included \$500.00 for this unit based on the unit depreciation method of depreciating fixed assets:

Dr. - Cash (Acct. No. 731)	\$20.00
Dr. - Gain (Loss) on Disposition of Assets (Acct. No. 430)	80.00
Dr. - Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	500.00
Cr. - Furniture and Equipment (Acct. No. 774)	\$600.00

Detailed Transactions

Credit:

- a) With the amount of gains realized on disposition of assets, representing the excess of proceeds received over the carrying value of the assets disposed of.
- b) With the balance of the account, if a debit, when the books are closed (transfer to the Net Income (Loss) account).

Debit:

- a) With the amount of losses sustained on disposition of assets, representing the excess of carrying value of the assets disposed of over the proceeds (if any) received from disposition.
- b) With the balance of the account, if a credit, when the books are closed (transfer to the Net Income (Loss) account).

440-OTHER NONOPERATING INCOME (EXPENSES)

This nonoperating income (expense) account reflects all nonoperating income received or expenses or losses incurred for which no specific account is provided. This account should include such items as the value of donations and gifts received except in the case of a donated fixed asset of material value which should be recorded as Donated Equity.

Entries in the Journal and Cash Record

Entries to this account should be made in the “Miscellaneous Credit” or “Miscellaneous Debit” columns of the Journal and Cash Record based on Cash Received Vouchers or Journal Vouchers prepared for each individual transaction.

Detailed Transactions

Credit:

- a) With the amount of gifts and donations received except tangible fixed assets of substantial value for which the credit entry should be to Account No. 950-“Donated Equity.”
- b) With the amount of miscellaneous nonoperating income received by the credit union for which no other account in the 400 series is specifically prescribed.
- c) With amounts equivalent to depreciation charged to expense during the period on donated tangible fixed assets; offsetting debit should be to Account No. 950-“Donated Equity.”
- d) With balance of account, if a debit, when books are closed (transfer to the Net Income (Loss) account).

Debit:

- a) With the amount of any miscellaneous nonoperating expenses of the credit union not specifically chargeable to other accounts in the 400 series.
- b) With balance of account, if a credit, when books are closed (transfer to the Net Income (Loss) account).

446-EXTRAORDINARY GAINS AND LOSSES

This account is used to record gains and losses resulting from events or transactions that are of an unusual nature and are infrequent in occurrence. Both of the following criteria must be met to classify an event or transaction as an extraordinary item:

- a) Unusual nature-the event or transaction possesses a high degree of abnormality and is of a type clearly unrelated to, or only incidentally related to the ordinary and typical activities of the credit union, taking into account the environment in which the credit union operates.
- b) Infrequency of occurrence-the event or transaction is a type that would not reasonably be expected to recur in the foreseeable future.

Examples of extraordinary losses might be a loss resulting from a major casualty such as a flood, earthquake, or hailstorm in a locality where the event would be extremely rare.

Entries in Journal and Cash Record

All entries to this account should be made to the “Miscellaneous Debit” or “Miscellaneous Credit” columns of the Journal and Cash Record based upon Cash Received or Journal Vouchers prepared for each individual transaction.

Illustrative Entries

-
- a) To record the net loss sustained from a flood that destroyed the credit union’s office furniture and equipment (inclusive of a new sophisticated electronic accounting machine) that occurred in a locale where a flood has never been experienced.

Dr. - Extraordinary Gains and Losses (Acct. No. 446)	\$40,000
Dr. - Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	500
Cr. - Furniture and Equipment (Acct. No. 774)	\$40,500

Detailed Transactions

Credit:

- a) With extraordinary gains resulting from an unusual event or transaction of an infrequent nature.

Debit:

- a) With extraordinary losses resulting from an unusual event or transaction of an infrequent nature.

4050.4 ASSET ACCOUNTS (700 SERIES)

700-LOANS TO MEMBERS

This series of accounts represents the total amount outstanding in loans to members. Each account in the 701-718 series is a summarization of all the individual loan ledgers for that particular type of loan. Totals of the balances of the individual loan ledgers must be taken at the end of each month to insure that they are in balance with these General Ledger control accounts.

Particular attention should be given to the discussion and requirements of Section 701.21 of the NCUA Rules and Regulations.

Entries in Journal and Cash Record

The accounting for all types of loans in this series of accounts is basically the same. However, more detailed information on each type of loan is given later in this section as well as in Section 6000 of this manual.

Debit these accounts in the "Loans-Loaned" column of the Journal and Cash Record with the full amount of new or refinanced loans made to each member. Credit these accounts in the "Loans-Repaid" column with the total of cash payments made by borrowers and endorsers, the balance of old loans included in new or refinanced loans, the application of shares to loans, and the charge off of uncollectible loans.

Entries canceling loan principal payments because of dishonored checks should be recorded in the "Loans-Repaid" column as deductions by entering the amounts involved in red figures or parentheses.

Posting to General Ledger

Debits and credits to these accounts in the General Ledger are made at the end of each month by posting the totals of the "Loans" columns from the Journal and Cash Record.

Posting to Members' Accounts

The items which are accumulated in the "Loans Loaned" column of the Journal and Cash Record for monthly postings to the General Ledger Loan accounts are also recorded in the Individual Share and Loan Ledger and in the Member's Passbook or Statement of Account. Credit entries for payments made on the loans are posted in these records from the Cash Received Vouchers or equivalents; other credit entries are posted from the "Loans-Repaid" column of the Journal and Cash Record.

Entries showing the charge off of a loss loan should be identified as such in the member's account in the Individual Share and Loan Ledger. Recoveries on loans charged off should be recorded as memorandum information on the member's account, or on a work sheet.

The total of the individual loan accounts as shown in the Individual Share and Loan Ledgers needs to be proved with the total of the loans in the 701-718 account series at least monthly and the listing (adding machine or computerized trial balance) retained in the files.

Illustrative Entries

-
- a) When a loan is made to a member:

Dr. - Loans (Acct. No. 701)	\$100.00
Cr. - Cash (Acct. No. 731)	\$100.00

- b) When an installment on a loan is paid and interest and late charges are collected:

Dr. - Cash (Acct. No. 731)	\$11.20
Cr. - Loans (Acct. No. 701)	\$10.00
Cr. - Interest on Loans (Acct. No. 111)	1.00
Cr. - Fees and Charges (Acct. No. 131)20

- c) When a member having a note outstanding with an unpaid balance of \$10.00 gives a new note for \$50.00 and receives a check for \$40.00 and his old note:

Dr. - Loans (Acct. No. 701)	\$11.20
Cr. - Cash (Acct. No. 731)	\$40.00
Cr. - Loans (Acct. No. 701)	10.00

NOTE: If a Journal Voucher is used, the new loan should be entered as a debit for the gross amount, the old loan balance as a credit item, and the voucher should indicate the net cash paid in the space opposite "Amount" in the lower left side of the form.

- d) When a member authorizes the credit union to apply his shares to his indebtedness:

Dr. - Shares (Acct. No. 901)	\$50.00
Cr. - Loans (Acct. No. 701)	\$49.00
Cr. - Interest on Loans (Act. No. 111)	1.00

- e) The board of directors determines the loan to the member may be a potential loss due to announced bankruptcy proceedings. The Allowance for Loan Losses Account is increased to provide for full and fair disclosure requirements of Section 702.3 of the NCUA Rules and Regulations.

Dr. - Provisions for Loan Losses (Acct. No. 301)	\$25.00
Cr. - Allowance for Loan Losses (Acct. No. 719)	\$25.00

- f) When the board of directors determines that further collection cannot be effected on a loan and authorizes charging off the loan:

Dr. - Allowance for Loan Losses (Acct. No. 719)	\$25.00
Cr. - Loans (Acct. No. 701)	\$25.00

NOTE: Only the unpaid principal should be charged off. If the member has any shares, the shares should be applied to the loan before the charge off, provided the credit union has obtained the proper statutory liens in court.

Detailed Transactions

Debit:

- a) With total principal amount of new and refinanced loans made to members. Credit:
- a) With cash payments of principal made by borrowers and endorsers.
- b) With unpaid principal balances of loans included in new and refinanced loans.
- c) With amounts of shares applied to principal of loans.
- d) With the unpaid balance of loans transferred to “Loans-Collateral in Process of Liquidation” (Account No. 707).
- e) With the charge off of loss loans.

701 -LOANS

This account represents total loans outstanding to members which are not included in the other 702-718 Account No. series. This account should be used to record loans to members for most consumer type expenditures such as vehicles, household goods, medical expenses, vacations, taxes, etc., and should also include special loan plans such as “revolving credit” if the plans are not true lines of credit. It should also include any other loans for which no classification has been provided.

The credit union needs to keep detailed subsidiary records of individual loans granted and/or outstanding by loan types. The subsidiary records should be subtotaled, the total of the balances should be proved with the balances in this account at least monthly, and the listings retained in the files.

701.1-COMMERCIAL LOANS

Commercial or business loans are generally defined as having the following characteristics: (1) repayment will be made from business revenue, (2) the security is a business asset, (3) the purpose is to obtain a business or business asset, or (4) the proceeds will be used to finance a business operation. Specific requirements have been established in Section 701.21(h) of the NCUA Rules and Regulations. A federal credit union may make business loans only in accordance with all the provisions of Section 701.21. The credit union staff must have the expertise required to protect against losses which could result. Since most business loans are larger, the risk of losses is much greater. With this type of loan, the emphasis on underwriting such loans shifts from the individuals, as in a regular consumer loan, to the financial soundness of the business requesting the loan.

The loan should be supported by commercial credit reports, analysis of income and expense statements, cash flow and balance sheet analysis. Cash flow is often a problem for most small businesses. Considering the high percentage of new business that fail, additional collateral should be considered in financing a new business by the credit union. If inventory is taken as collateral, it should be recognized that upon forced sale, the value of that inventory may only be a fraction of the value of this finished product.

701.2-AGRICULTURE LOANS

The same specific requirements for business loans contained in Section 701.21 of the NCUA Rules and Regulations are required for agriculture loans. A credit union making agricultural loans must take into account various factors that may not be present in considering urban real estate as security on loans. Loans are made not on the acreage alone, but upon the productivity of those acres. Erosion and wastage as well as fertility must be studied since the loan may be repaid over a long period of time. Productivity of the farm over a series of years as a source of repayment must be considered since it must first provide a living for its owners. The lender must be sure there will be funds to pay taxes and operating expenses, including reasonable allowances to maintain the productivity of the land, and still leave a balance to amortize the loan. The applicant must be able to demonstrate managerial efficiency.

Accounting records are needed to supply information on the ability of the borrower to repay. Net worth should be used in determining borrowing capacity, but only cash can repay the debt. Income statements are more useful in measuring debt repayment capacity. Tax returns are also essential to determine information on the potential borrower. If crop loans are made, inspections of the growing crops are essential as well as monitoring of disbursements to assure that the proceeds are channeled into the farmer's operation. Livestock loans need inspections at the inception of credit as well as periodically throughout the life of the loan, and the inspections should be documented in the loan files. For example, a loan for a dairy herd purchase would need a detailed written inspection periodically to determine if the cattle are healthy and productive at all times. The inspection would determine if the value of the cattle is adequate to repay the outstanding loan based on market conditions. Likewise, a loan to finance a calf feeder operation would also need periodic inspections to determine that all the livestock purchased were healthy and increasing in value to repay the loan at maturity. These inspections will take expertise which may or might not be readily available in the individual credit union.

701.3-CONSUMER LOANS

This account includes loans made to members for consumer type expenditures such as automobiles, trucks, motorcycles, recreational vehicles, household goods, home improvements, revolving credit, medical expenses, vacations, taxes and similar items. Revolving credit loans would also be included in this account. Many credit unions, through use of their computer systems, are able to keep records on the various types or purposes of loans to reflect the number and balances outstanding in each category for comparison purposes.

701.4-OTHER MEMBER LOANS

This account contains various loans to members which do not fit other groupings listed. Included in this account may be investment loans, student loans, and other loans as needed.

701.5-HOME EQUITY LOANS

A loan gaining wide acceptance in credit unions is the Home Equity loan. These loans may offer a tax benefit to members who itemize deductions for tax purposes. This type of loan plan allows the borrower to use the portion of equity in his/her residence to increase borrowing capacity. These loans can either be first or second mortgage loans.

Although credit unions should employ the same procedures and evaluation of creditworthiness and collateral as in other real estate lending, home equity loans are often different since they may be open-end loans. Advances can be generated in a variety of ways as in any open-end plan.

Credit unions need to develop extensive policies when engaging in home equity lending and should have similar procedures as with traditional real estate loans. A policy on the maximum percentage of appraised value that will be loaned (including unpaid value of the first mortgage plus the maximum loan limit on the second mortgage), proper and accurate written appraisals of the collateral, and detailed evaluation of the applicant's ability to repay are all needed. The loan must comply with provisions contained in Section 701.21 of the NCUA Rules and Regulations as well as other legal requirements where the credit union is located. It is extremely important that legal counsel be consulted so that any problems detected in the loan documents can be alleviated. An attorney's opinion should be on Me stating the forms meet all applicable federal, state, and local requirements. Even with the opinion letter from the vendor's attorney, it would be wise to obtain an independent attorney's opinion from an individual who Species in state law.

Advantages of these types of loans are that the loans are often granted at variable interest rates and are secured by collateral that can often appreciate rather than depreciate. Also, they can be made with relative ease of disbursement after all initial documents have been prepared and can be modified depending on external factors such as the loan demand.

Disadvantages include the fact that real estate market values may decrease in value, or the property value may decline due to poor maintenance. Also, if this type of lending is not controlled, it could have the impact of overextending the borrower to possible bankruptcy. This type of loan also contributes to a lower loan turnover rate and must be managed from a liquidity and funds management standpoint.

701.8-NET COMMITMENT FEES-LOANS TO MEMBERS

This account should be used to record net commitment fees when the commitment is ex and the fees are required to be accounted for as an adjustment of yield using the interest method. This account should be credited and Account No. 894, "Defended Credits-Net Commitment Fees-Loans to Members" should be debited. A detailed discussion of the application of the interest method can be found under Account No. 703.1.

Commitment fees are fees charged for entering into an agreement that obligates the enterprise to make or acquire a loan or to satisfy an obligation of the other party under a specified condition. The term includes fees for letters of credit and obligations to purchase a loan or group of loans and pass-through certificates. Available lines of credit under credit card and similar charge card arrangements are loan commitments. Fees collected in connection with such cards (credit card fees) are viewed as being loan commitment fees.

701.9-NET ORIGATION FEES (COSTS)-LOANS TO MEMBERS

For term loans, the net origination fees (costs), if material, should be deferred and amortized over the life of the loan by the interest method as an adjustment to yield (see discussion under Account No. 703.1). If immaterial, net origination fees (costs) should be accounted for as discussed below. Net origination fees (costs) that are related to lines of credit should be accounted for as discussed in Account No. 890, Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members.

Origination fees are those fees charged to the borrower in connection with the process of originating, refinancing, or restructuring a loan. This term includes, but is not limited to points, management, arrangement, placement, application, underwriting, and other fees pursuant to a lending or leasing transaction and also includes syndication and participation fees to the extent they are associated with the portion of the loan retained by the lender.

Credit unions in recent years have started charging a nominal, nonrefundable loan application fee on loans to members, i.e., business, agricultural, and consumer loans. The purpose of the fee is to increase income and offset the cost of credit reports. The fees charged to borrowers should be deferred and amortized over the life of the loan. Direct costs incurred with respect to the particular transaction should also be deferred and amortized over the life of the loan. The fees and direct costs are netted and amortization is calculated based on the interest method.

The net origination fees (costs) on these types of transactions should not be considered material if the following criteria are met:

- a) The application fee is nominal;
- b) The direct costs incurred are nominal; and
- c) The maturity of these type transactions are short in nature.

If immaterial loan application fees may be credited directly to income and the associated direct costs expensed as incurred. Should the application fees taken on an individual basis or on an aggregate basis be determined to be material in relation to the direct cost incurred, then compare with FASB Statement No. 91 would be required. Likewise, should the direct costs incurred be considered material in relation to the application fees charged, FASB Statement No. 91 would require the deferral of direct costs as an adjustment to yield. An extensive discussion of the interest method can be found under Account No. 703. 1.

702-LINES OF CREDIT TO MEMBERS

This account represents line of credit loans granted under provisions of Section 107(5)(B) of the Federal Credit Union Act and Section 701.21 of the NCUA Rules and Regulations. A line of credit is a fixed amount which may be drawn upon from time to time and may be replenished by amounts previously drawn. The t between the credit union and the borrower specifies the amounts which may be borrowed and conditions of the agreement. Advances are preapproved under a line of credit but it may be canceled upon notice by either party.

702.1-LINES OF CREDIT TO MEMBERS CREDIT CARDS

This account is used to record loans originating from credit card transactions involving posted Cash Advances and purchases. Credit cards are similar to loan drafts except a plastic card is used instead of a check. Credit unions usually enter into an agreement with another financial institution to issue the plastic cards to their members for processing against the member's line of credit. This account should be accompanied by the necessary subsidiary individual loan ledgers that are balanced monthly to the General Ledger balance of the account. Refer to Section 6000 for further information and the illustrative Journal and Cash Record entries.

702.2-LINES OF CREDIT-CASH ADVANCES IN PROCESS

This account is used to record credit card cash advances that have been paid out but have not been posted to the member's account by the credit cards processor. When the processor has posted the transaction to the cardholder's account, the entry should be reversed. Refer to Section 6000 for illustrative Journal and Cash Record entries.

702.3-NET ORIGATION FEES (COSTS)-LINES OF CREDIT

This account is used to accumulate the origination fees and costs relating to lines of credit loans to members.

The accounting for origination fees for lines of credit parallels that discussed under Account Number 703.1, Net Origination Fees (Costs)-Real Estate Loans over 12 Years.

702.4-NET COMMITMENT FEES (COSTS)-LINES OF CREDIT

This account is used to accumulate the commitment fees and costs relating to lines of credit loans to members. A detailed description of commitment fees can be found in Account No. 701.8, "Net Commitment Fees-Loans to Members."

The accounting for Periodic fees is discussed in Account No. 884, "Deferred Credits-Credit Card Commitment Fees."

703-REAL ESTATE LOANS OVER 12 YEARS

This account represents total outstanding balances of real estate loans having maturities over 12 years but not exceeding 40 years. These loans to members are granted in accordance with Section 701.21(o) and (g) of the NCUA Rules and Regulations. Real estate loans having a maturity of 12 years or less should be included in Account No. 704.

703.1-NET ORIGATION FEES (COSTS)-REAL ESTATE LOANS OVER 12 YEARS

Origination fees are nonrefundable fees charged to the borrower in connection with the originating, refinancing or restructuring of a loan. Examples include points, management, arrangement, placement, application, underwriting, and other fees related to a lending transaction. Points charged to sellers shall be considered origination fees.

Direct loan origination costs include the following:

- a) Incremental direct costs incurred in transactions with third parties, and
- b) Certain costs relating to specific activities performed by the lender for that particular loan. The specific activities are:
 - 1) Evaluating the applicant's financial condition;
 - 2) Evaluating and recording guarantees, collateral and security arrangements;
 - 3) Negotiating loan terms;
 - 4) Preparing and processing loan documents; and
 - 5) Closing the transaction.

These costs should include only that portion of the employees total compensation and payroll related fringe benefits for the time spent on a particular loan and other costs related to those activities on a particular loan. All other lending related costs should be expensed as incurred. Administration costs such as rent, depreciation, etc., are considered indirect costs and should be expensed as incurred. Also, direct costs do not include transactions with third parties billed directly to the applicant.

Loan origination fees should be deferred and recognized over the life of the loan as an adjustment of yield. Likewise, direct loan origination costs should be deferred and recognized over the life of the loan as a reduction in yield. The fees and costs should be offset against each other and only the net amount should be deferred and amortized. The netting of fees and costs should be applied on an individual loan basis. The net amount should be deferred and amortized using the interest method. The objective of the interest method is to arrive at periodic interest income at a constant effective yield on the net investment (carrying value). The difference between the periodic interest income so determined and the stated interest on the outstanding principal balance is the amount of periodic amortization.

Entries in the Journal and Cash Record

Net fees (costs) and their subsequent amortization should be recorded in the miscellaneous columns of the Journal and Cash Record. The unamortized balance of the net fees (costs) should be reported as part of the loan balance to which it relates. The periodic amortization should be reported on the income statement as interest income.

Illustrative Entries

Assume that a \$75,000 real estate loan is made 1/01/X1 at 10% interest. The loan is to be paid back in 15 annual installments. The credit union charges points of 3%. Direct costs were \$250.

Step 1-Determine the carrying amount of the loan:

Principal Balance of Loan	\$75,000
Less: Fees Charged	(2,250)
Plus Direct Costs	<u>250</u>
Carrying Amount	\$73,000

Step 2-Determine the unamortized net fees:

Fees Charged	\$2,250
Less: Direct Costs	<u>(250)</u>
Unamortized Net Fees	\$2,000

Step 3-Determine the yearly payment on the amount of the loan. (NOTE: A pocket calculator with present value/annuity capability can be used to determine the yearly value payment). In this case, the yearly payment is \$9,861.

Step 4-Determine the constant effective yield on the carrying amount, \$73,000. (NOTE: Again this can be done using a pocket calculator with present value capability). In this example, the constant effective yield based on the carrying amount is 10.4782 percent.

Step 5-Determine the amount of periodic amortization.

Year 1

- Stated interest based on the outstanding principal balance = \$75,000, ($\$75,000 \times 10\%$).
- Interest income based on the carrying amount and the constant effective yield = \$7,649, ($\$73,000 \times .104782$).
- Amount of amortization for year 1 = \$149, ($\$7,649 - \$7,500$).
- Total interest income for year 1 = \$7,649, ($\$7,500 + \149). ($\$73,000 \times .104782$).
- Outstanding principal balance at the end of year 1 = \$72,639, ($\$75,000 - \$9,861 + \$7,500$).
- Carrying amount at the end of year 1 = \$70,788, ($\$72,639 - \$2,000 + \149).
- Net unamortized fees (costs) would be \$1,851, ($\$2,000 - \149).

Year 2

- Stated interest based on the outstanding principal balance = \$7,264, ($\$72,639 \times 10\%$).
- Interest income based on the carrying amount and constant effective yield = \$7,417, ($\$70,788 \times .104782$).
- Amount of amortization for year 2 = \$153, ($\$7,417 - \$7,264$).
- Total interest income for year 2 = \$7,417, ($\$7,264 + \153).
- Outstanding Principal balance at the end of year 2 = \$70,042, ($\$72,639 - \$9,861 + \$7,264$).
- Carrying amount at the end of year 2 = \$68,344, ($\$70,042 - \$1,851 + \153).
- Net unamortized fees (costs) would be \$1,698, ($\$1,851 - \153).

Figure 4-4: Illustration of an Amortization Table

	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Amount	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	(\$73,000)				\$75,000	\$2,000	\$73,000
1	9,861	\$7,500	\$149	\$7,649	72,639	1,851	70,788
2	9,861	7,264	153	7,417	70,042	1,698	68,344
3	9,861	7,004	157	7,161	67,185	1,541	65,644
4	9,861	6,719	159	6,878	64,043	1,382	62,661
5	9,861	6,404	162	6,566	60,586	1,220	59,366
6	9,861	6,059	161	6,220	56,784	1,059	55,725
7	9,861	5,678	161	5,839	52,601	898	51,703
8	9,861	5,260	158	5,418	48,000	740	47,260
9	9,861	4,800	152	4,952	42,939	588	42,351
10	9,861	4,294	144	4,438	37,372	444	36,928
11	9,861	3,737	132	3,869	31,248	312	30,936
12	9,861	3,125	117	3,242	24,512	195	24,317
13	9,861	2,451	97	2,548	17,102	98	17,004
14	9,861	1,710	72	1,782	8,951	26	8,925
15	9,861	910*	26	936	-0-	-0-	-0-
		895*		935*			
		\$15 Diff		\$1.00 Diff.			
		Due to		Due to			
		Rounding*		Rounding*			

Each succeeding year's computations would be calculated exactly the same as years 1 and 2. Should the borrower make a full prepayment of the outstanding principal balance, any net unamortized fees (costs) would be taken directly into interest income.

- a) To record the net origination fees (costs) per the above example.

Dr. - Cash (Acct. No. 731)	\$2,000
Cr. - Net Origination Fees	
(Costs)-Real Estate Loans Over	
12 years (Acct. No. 703.1)	\$2,000

- b) To record the amortization of the net origination fees (costs) when the first scheduled payment is made.

Dr. - Real Estate Loans Over 12	
Years-Net Origination Fees	
(Costs)-(Acct. No. 703.1)	\$149.00
Cr. - Interest on Real Estate	
Loans (Acct. No. 114)	\$149.00

- c) To record the amortization of the net origination fees (costs) when the second scheduled payment is made.

Dr. - Real Estate Loans Over 12	
Years-Net Origination Fees	
(Costs)-(Acct. No. 703.1)	\$153.00
Cr. - Interest on Real Estate	
Loans (Acct. No. 114)	\$153.00

- d) To record the transaction as it pertains to the net unamortized fees (costs) should the borrower make a full prepayment when the third scheduled payment is due.

Dr. - Real Estate Loans Over 12	
Years-Net Origination Fees	
(Costs)-(Acct. No. 703.1)	\$1,698.00
Cr. - Interest on Real Estate	
Loans (Acct. No. 114)	\$1,698.00

NOTE: When the stated rate of interest changes during the term of the loan the interest method is applied as follows:

- a) Should the stated interest rate increase during the term of the loan so that the interest accrued under the interest method in early periods would exceed interest at the stated rate, interest income shall not be recognized to the extent that the net investment in the loan would increase to an amount greater than the outstanding balance of the loan. In such a case, the amortization of the net fees calculated by subtracting the stated interest from the interest income based on the net investment would exceed the total unamortized fees. Therefore, the interest income is limited to the stated interest plus the unamortized net fees (costs).
- b) Should the stated rate decrease during the term of the loan, the stated interest calculated early in the term of the loan would exceed interest income based on the net investment. In such a case the excess is deferred and added to the unamortized net fees thereby increasing the net investment in the loan.
- c) If the loan's stated rate varies based on an independent index or rate, the calculation of the constant effective yield shall be based either on the rate in effect at the inception of the loan or on the factor as it changes over the life of the loan.

If the constant effective yield is based on the rate in effect at the loan's inception, then the amortization of the net fees (costs) would be the same as if the rate had not changed. Therefore, the interest income equals the stated interest plus the amortization of the net fees (costs) on the terms of the loan at inception.

If the constant effective yield is based on the factor as it changes over the life of the loan, then a new constant effective rate would be computed when the rate changes.

Problems also can be encountered when the scheduled payment and/or payment dates are not met. Therefore, it is essential in such cases that professional assistance be consulted and that the software necessary to amortize the net fees (costs) be obtained.

If a credit union has a large number of similar loans for which prepayments are probable and the timing and amount of the prepayments can be reasonably estimated, the credit union may consider estimates of future principal payments in the calculation of the constant effective yield. If this approach is taken and a difference arises between the prepayments received and the prepayments anticipated, the effective yield should be recalculated to reflect actual payments to date and anticipated future payments. The net investment in the loans shall be adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the loans. The investment in the loans shall be adjusted to the new balance with a corresponding charge or credit to interest income. Credit unions that anticipate prepayments shall disclose that policy and the significant assumptions underlying the prepayment estimates. Detailed examples are not provided due to the complexity of the subject matter. Professional assistance should be consulted if this procedure is being contemplated.

When a borrower refinances or restructures a loan and the terms are at least as favorable to the lender as the terms for comparable loans to other members with similar collection risks who are not refinancing or restructuring, the refinanced loan should be accounted for as a new loan. Any unamortized net fees (costs) from the original loan shall be recognized as interest income when the new loan is granted.

If the refinancing does not meet the conditions discussed in the preceding paragraph, then the net fees (costs) from the original loan shall be carried forward as a part of the net investment in the new loan.

Detailed Transactions

Debit:

- a) With the amount of direct loan costs incurred.
- b) With the amount of periodic amortization of the net fees.

Credit:

- a) With the amount of loan origination fees received.
- b) With the amount of periodic amortization of the net costs.

704-REAL ESTATE LOANS 12 YEARS OR LESS

This account includes all real estate loans which are granted to members having an original maturity of 12 years or less. It is the summarization of all the individual loan ledger accounts for those real estate loans. The total of the balances in the individual real estate loan accounts is usually taken at the end of the month and should equal the debit balance of the account as of the same date.

704.1-NET ORIGATION FEES (COSTS)-REAL ESTATE LOANS 12 YEARS OR LESS

Refer to the discussion under Account No. 703. 1, "Net Origination Fees (Costs)-Real Estate Loans Over 12 Years." The principles discussed for the netting of fees and costs and the deferral of net fees over the life of the loan as an adjustment to yield using the interest method are applicable here as well. Account No. 704.1 should replace Account No. 703.1 in the illustrative entries where real estate loans are 12 years or less.

705-MOBILE HOME LOANS

This account includes loans to finance the purchase of mobile homes which are secured by a first lien on the mobile home. Section 701.21(f) of the NCUA Rules and Regulations allows maturities of up to 15 years in the case of a loan to finance the purchase of a mobile home if the mobile home will be used as the member borrower's residence and the loan is secured by a first lien on the mobile home.

705.1-NET ORIGATION FEES (COSTS)-MOBILE HOME LOANS

Net origination fees (costs) should be accounted for as discussed under Account No. 703. 1. Account No. 705.1 should replace Account No. 703.1 in the illustrative entries where real estate loans are 12 years or less.

706-SHARE SECURED/INSURED LOANS

For share secured loans, the account represents only that class of loans that had pledged shares equal to the amount of the loan granted, and still has I pledged shares equal to the outstanding loan balance.

Also included in this account are loans secured by the insurance or guarantee of, or with an advance commitment to purchase the loan by, the Federal Government, a state government, or any agency of either. As reflected in Section 701-21(e) of the NCUA Rules and Regulations, these loans may be made for the maturity and under the 4 and conditions, including the rate of interest, specified in the law, regulations, or program under which the insurance, guarantee, or commitment is provided.

707-LOANS-COLLATERAL IN PROCESS OF LIQUIDATION

The account reflects the total unpaid principal balances of all loans for which the credit union has taken possession of collateral, by legal process or otherwise, and for which the obligation of the borrower has not been canceled. Transfer of the unpaid balance of the particular loans secured by the acquired collateral should be made to this account. If the borrower has other loans outstanding, notations should be made on all his ledger cards to indicate the transfer to this account, but loans of the borrowers not related to the acquired collateral should remain in "Loans", (Account No. 701).

The purpose of the transfer to this account is to segregate the loan balances for control and accountability and to permit realistic financial analysis of these loans. This account may include costs incurred in acquisition or disposal of collateral related to loans in this account if the hen instrument or other written agreement allows the credit union to add such costs to the borrower's loan balance.

When the borrower's obligation to the credit union has been canceled, by legal requirement in some jurisdictions or by some action of the board of directors, the assets in possession of the credit union should be accounted for in Account No. 798, "Assets Acquired in Liquidation of Loans."

Illustrative Entries

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- a) To record the transfer of the unpaid principal balance of loans for which assets have been acquired by the credit union:

Dr. - Loans - Collateral in Process of Liquidation (Acct. No. 707)	\$350.00
Cr. - Loans (Acct. No. 701)	\$350.00

- b) When the borrower's obligation the credit union is canceled, to transfer the value of the assets to Assets Acquired in Liquidation of Loans:

Dr.-Assets Acquired in Liquida- tion of Loans (Acct. No. 789)	\$300.00
Cr. - Loans - Collateral in Process of Liquidation (Acct. No. 707)	\$300.00

- c) The \$50.00 remaining in Account No. 707 may be charged off to Allowance for Loan Losses at this time with authorization of the board of directors. If the board of directors had not previously established the \$50 in the Allowance for Loan Losses Account, it should be authorized at the time of the charge off of the designated loss amount.

Dr. -Allowance for Loan Losses	
(Acct. No. 719)	\$50.00
Cr. - Loans - Collateral in Process	
of Liquidation (Acct. No. 707)	\$50.00

Detailed Transactions

Debit:

- a) With the principal balance of loans secured by collateral acquired by the credit union.
- b) With costs incurred in acquisition or disposal of collateral when such costs are legally proper for charge to the borrower's loan balance.

Credit:

- a) With cash payments of principal made by borrowers or endorsers.
- b) With the amounts of shares applied to principal balances.
- c) With the unpaid balances of such loans when the value of the collateral is recorded in "Assets Acquired in Liquidation of Loans", (Account No. 798).
- d) With charge offs of loss loans.

710-OTHER LOANS

711-NOTES AND CONTRACTS RECEIVABLE

This account reflects notes or contracts receivable obtained in connection with the sale of credit union assets or the unpaid principal amount due the credit union on notes and contracts accepted in lieu of cash upon sale of assets acquired in liquidation of loans. For sales of property under a note or contract, any gain on the sales should be deferred over the period of the contract by crediting the amount of the gain to "Deferred Gains on Liquidation of Loans", (Account No. 883).

This account should be credited with collections of principal amounts of the notes or contracts receivable, and interest earned on such receivables should be credited to "Other Miscellaneous Operating Income", (Account No. 151).

Notes and contracts receivable which are determined by the board of directors to be uncorrectible should be charged off to the "Allowance for Loan Losses" (Account No. 719), after offsetting, when applicable, related amounts of deferred income in Account No. 883.

Detailed subsidiary records should be established for each note and contract receivable to support this General Ledger control account.

Illustrative Entries

- a) To record acceptance of a note or contract of \$400 for the sale of assets where the carrying value of the assets was \$325, and it becomes necessary to establish the gain of \$75.00 as deferred income:

Dr.-Notes and Contracts Receivable (Acct. No. 711)	\$400.00
Cr.-Assets Acquired in Liquidation of Loans (Acct. No. 798)	\$325.00
Cr.-Deferred Gain on Liquidation of Loans (Acct. No. 883)	75.00

- b) To record collections on notes and contracts receivable:

Dr.-Cash (Acct. No. 731)	\$40.00
Cr.-Notes and Contracts Receivable (Acct. No. 711)	\$37.50
Cr.-Other Miscellaneous Operating Income (Acct. No. 151)	2.50

- c) To record transfer to income from Account No. 883 when the related note or contract receivable is paid in full:

Dr.-Deferred Gain on Liquidation of Loans (Acct. No. 883)	\$75.00
Cr.-Other Miscellaneous Operating Income (Acct. No. 151)	75.00

- d) To record charge off of the uncollectible balance of notes and contracts receivable when authorized by the board of directors; assume a balance of \$300.00 is uncollectible but a deferred gain of \$50.00 is shown in Account Number 883:

Dr.-Deferred Gain on Liquidation of Loans (Acct. No. 883)	\$50.00
Dr.-Allowance for Loan Losses (Acct. No. 719)	250.00
Cr. - Notes and Contracts Receivable (Acct. No. 711)	\$300.00

Detailed Transactions

Debit:

- a) With the face amount of notes and contracts receivable obtained from the sale of acquired collateral of credit union assets.

Credit:

- a) With principal amounts repaid on notes and contracts receivable.
- b) With unpaid principal amounts of notes or contracts when authorized for charge off by the board of directors: offsetting debit for this entry should be to Account No. 883, to the extent of the deferred income relating to the charged-off receivable, and to "Allowance for Loan Losses", (Account No. 719) for any excess.

712-LOANS PURCHASED FROM LIQUIDATING CREDIT UNIONS

This account represents the total principal amount outstanding in loans purchased from liquidating credit unions. It is a summarization of all Individual Loan Purchased Ledgers where the credit union is the sole purchaser of loans of a liquidating credit union. The total of the balances of the Individual Loan Purchased Ledgers must be proved with the balances in this account at least monthly and the listings must be retained in the files. Where loans are purchased from more than one credit union, the same monthly proof should be made for all loans purchased.

When the credit union participates with one or more other credit unions in the purchase of an undivided interest in the loans of a liquidating credit union, a single Individual Loan Purchased Ledger should be established for the full amount of the principal of the credit union's undivided interest in the loans purchased.

All income on loans purchased from liquidating credit unions should be recorded in "Income from Loans of Liquidating Credit Unions", (Account No. 113), and the final charge-off of uncollectible balances of loans purchased should be made to the "Allowance for Loan Losses", (Account No. 719) after offsetting the amount carried in "Discount on Loans Purchased from Liquidating Credit Unions", (Account No. 712.1). The discount on loans purchased should be amortized as an adjustment to yield using the interest method. See write up under Account No. 712.1.

A federal credit union which purchases the loans of a liquidating credit union may offer full membership rights and services to the borrowers whose loans it has purchased. Accordingly, the purchasing federal credit union must apply for and obtain an appropriate amendment to Section 5 of its charter.

Entries in the Journal and Cash Record

Transactions related to this account should be recorded in the Journal and Cash Record either in the Miscellaneous columns or, if the volume warrants, in separate columns designated for this purpose. The entries should be supported by daily summary Cash Received Vouchers or Journal Vouchers.

Posting to Subsidiary Accounts

Detailed transactions recorded in summary form in the Journal and Cash Record or otherwise should be posted individually to the Individual Loan Purchased Ledgers and to the borrower's passbook or statement of account. Credit entries for payments made on the loans are posted from the individual Credit Received Vouchers (or its equivalents). Other credit entries are posted from the Journal and Cash Record or from Journal Vouchers (or its equivalent).

Illustrative Entries

- a) When a block of loans is purchased:

Dr.-Loans Purchased from Liquidating Credit Unions (Acct. No. 712)	\$6,000.00
Cr.-Cash (Acct. No. 731)	\$4,500.00
Cr.-Discounts on Loans Pur- chased from Liquidating Credit Unions (Acct. No. 712.1)	1,500.00

- b) When an installment on a purchased loan is repaid and interest of \$10.00 and late charges of 50 cents are collected:

Dr.-Cash (Acct. No. 731)	\$34.50
Cr.-Loans Purchased from Liquidating Credit Unions (Acct. No. 712)	\$24.00
Cr.-Income from Loans of Liquidating Credit Unions (Acct. No. 113)	10.50

- c) When discounts on loans purchased are earned by the credit union:

Dr.-Discounts on Loans Pur- chased from Liquidating Credit Unions (Acct. No. 712.1)	\$560.00
Cr.-Income from Loans of Liquidating Credit Unions (Acct. No. 113)	\$560.00

- d) When the board of directors authorizes the unpaid balance of a loan purchased to be charged off:

Dr. -Allowance for Loan Losses (Acct. No. 719)	\$450.00
Cr. -Loans Purchased from Liquidating Credit Unions (Acct. No. 712)	\$450.00

Detailed Transactions

Debit:

- a) With the total unpaid principal balances of loans purchased from a liquidating credit union; this may represent an undivided interest in the loan portfolio of a liquidating credit union.

Credit:

- a) With cash payments of principal.
- b) With unpaid principal of loans purchased transferred to "Loans Purchased from Liquidating Credit Unions-Collateral in Process of Liquidation", (Account No. 713).
- c) With the charge off of loans purchased as authorized by the board of directors. (NOTE: Before the entry is made, this account should be credited with the amount carried for the loans to be charged off in "Discounts on Loans Purchased from Liquidating Credit Unions", (Account No. 712.1).

712.1-DISCOUNTS ON LOANS PURCHASED FROM LIQUIDATING CREDIT UNIONS

When loans are purchased from liquidating credit unions at less than the face amount, the discount (difference between face amount and cost) should be recorded in this account. The discount includes any fees paid less fees received. The discount should be amortized over the life of the loans as an adjustment to yield using the interest method. The interest method may be applied to the individual loans or to the group of loans in the aggregate. Professional assistance should be consulted due to the complexity of applying the interest method. A discussion of the interest method can be found under Account No. 703.1.

713-LOANS PURCHASED FROM LIQUIDATING CREDIT UNIONS COLLATERAL IN PROCESS OF LIQUIDATION

This account reflects the total unpaid balances of loans purchased from other credit unions for which the purchasing credit union has taken possession of the collateral by legal process or otherwise and for which the obligation of the borrower has not been canceled. When the borrower's obligation to the credit union has been canceled, by legal requirements in some jurisdictions or by action of the board of directors, the assets in possession of the credit union should be accounted for in Account No. 798-"Assets Acquired in Liquidation of Loans".

Subsequent to the board of directors' approval, the unpaid balance of the particular loans secured by acquired collateral should be charged off. If the borrower has other loans, notation should be made on all of his loans to indicate the charge off of one (or more) loans. Loans of the borrower not related to the acquired collateral should remain in the applicable loan asset account.

Illustrative Entries

- a) To record the transfer of the unpaid balance of loans purchased from liquidating credit unions for which assets have been acquired by the credit union:

Dr. -Loans Purchased from Liquidating Credit Unions - Collateral in Process of Liquidation (Acct. No. 713)	\$450.00
Cr. -Loans Purchased from Liquidating Credit Unions (Acct. No. 712)	\$450.00

- b) When the borrower's obligation to the credit union is canceled, to record the charge off of the loan balance to the "Allowance for Loan Losses", (Account No. 719).

Dr. -Allowance for Loan Losses (Acct. No. 719)	\$400.00
Cr. -Loans Purchased from Liquidating Credit Unions - Collateral in Process of Liquidation (Acct. No. 713)	\$400.00

Detailed Transactions

Provided this lien instrument or other written agreement allows the credit union to add such costs to the borrower's loan balance.

Debit:

- With the principal balances of loans purchased from liquidating credit unions for which the collateral has been acquired but the borrower's indebtedness has not been canceled.
- With costs incurred in acquisition or disposal of collateral when such costs are legally proper for charge to the borrower's loan balance.

Credit:

- With cash payments of principal made by borrowers. and endorsers.

- b) With the value of assets transferred to “Assets Acquired in Liquidation of Loans”, (Account No. 798).
- c) With charge off of bad loans as determined by the board of directors, with offsetting debit to Account No. 719, “Allowance for Loan Losses.”

NOTE: An alternative method may be used in lieu of Account No. 713 similar to that identified in the footnote following Account No. 707.

714-LOANS OR OTHER OBLIGATIONS PURCHASED

This account represents loans purchased by the credit union to which it has full title (seller has assigned the note and supporting documents to the credit union). Reference should be made to Section 6000 for sample accounting entries for this account and the related premium or discount accounts that are listed below.

714.1-PREMIUM ON LOANS PURCHASED

This account includes the amount paid in excess of the face amount for loans or other obligations purchased. The premium is to be amortized over the life of the loans using the interest method. The interest method may be applied to the individual loans or to the group of loans in the aggregate. Professional assistance should be consulted due to the complexity of applying the interest method. A discussion of the interest method can be found under Account No. 703.1.

714.2-DISCOUNT ON LOANS PURCHASED

When loans are purchased at less than the face amount, the discount (difference between face amount and cost) should be recorded in this account. The discount includes fees paid less any fees received. The discount is to be amortized over the life of the loans using the interest method. The interest method may be applied to the individual loans or to the group of loans in the aggregate. Professional assistance should be consulted due to the complexity of applying the interest method. A discussion of the interest method can be found under Account No. 703.1.

715-LOAN PARTICIPATIONS PURCHASED

This account includes the face value of the credit union’s interest in loans purchased. In this situation, the seller retains title to the accounts. A further discussion of this account and the premium and discount accounts detailed below can be found in Section 6000.

715.1-PREMIUM ON LOAN PARTICIPATIONS PURCHASED

This account represents the amount paid in excess of the face value of the credit union’s portion of the loans purchased. The amount paid includes any fees paid less any fees received.

The premium on the loan participations purchased may be allocated to the individual loans purchased or accounted for in the aggregate. The premium should be recognized as a reduction of yield using the interest method. Professional assistance should be obtained due to the complexity of applying the interest method. A detailed discussion of the interest method can be found in Account No. 703.1.

715.2-DISCOUNT ON LOAN PARTICIPATIONS PURCHASED

The difference between the face value of the interest in the loans that were purchased, and the cost that was below the face value, should be recorded in this account. The cost includes any fees paid less any fees received.

The discount on the loan participations purchased may be allocated to the individual loans purchased or accounted for in the aggregate. The discount should be recognized as interest income using the interest method. Professional assistance should be obtained due to the complexity of applying this interest method. A detailed discussion of the interest method can be found in Account No. 703.1.

716-LOAN PARTICIPATIONS SOLD

This account represents a shifting of loans in a participation sale. The FCU (seller) continues to retain full title to the loans that remain in its possession. The account is established by transferring the applicable percentage of the loans sold from "Loans to Members", (Account Nos. 701 through 707) to this account. Refer to Section 6000.

716.1-LOAN PARTICIPATIONS SOLD (CONTRA-ASSET ACCOUNT)

This account is established with the amount received from the sale of loan participations. This account serves as a contra asset account. As payments are disbursed to the buyer, this account is debited with the amount of principal included in this disbursement. When the posting is completed, the balance of this contra account must reflect the required participation ratio when compared to the individual loan ledger balance for the loan control account. Refer to Section 6000 for additional information.

Assuming that this account reflects only one sale of loan participations, the balance of the account should be eliminated when it has been credited with the last loan principal payment.

717-OTHER MISCELLANEOUS NONMEMBER LOANS

This account contains loans to nonmembers not included in other loan accounts. For example, a federal credit union may permit a nonmember to assume a member's mortgage loan in conjunction with purchasing a member's principal residence, provided that:

- a) The nonmember assumes only the remaining unpaid balance of the loan (no new money or refinancing);
- b) There is no extension of the original maturity date beyond that specified in the loan agreement to the member;
- c) The original loan was not made to the member with the underlying intent of having the nonmember immediately, or soon thereafter, assume the loan; and
- d) The terms of the assumption are consistent with the loan agreement and in compliance with the Federal Credit Union Act, NCUA Rules and Regulations, and other applicable law.

718-LOANS SUBJECT TO REPURCHASE AGREEMENTS

This account is for loan-type repurchase transactions with credit union members. A loan-type repurchase transaction is any repurchase transaction that does not qualify as an investment-type repurchase transaction. It is a lending transaction that consists of a credit union agreeing to make a loan to a credit union member. The loan is evidenced by a note that is supported by a documentation of the collateral. When such a loan is granted it should be charged to this account. Reference should be made to Section 6000 for further information.

719-ALLOWANCE FOR LOAN LOSSES

This credit balance account reflects amounts set aside by the credit union through charges against operating income. Its purpose is to provide a cushion to absorb losses from both current and delinquent loans.

This account balance represents a valuation allowance showing management's judgment as to probable losses which may be incurred in the normal payoff of outstanding loans, both current and delinquent, and other loan derived assets, (700-718 series of general ledger accounts). Thus, the balance of this account should be treated on periodic Statements of Financial Condition (Balance Sheets) as a deduction from the total carrying value of loans and loan derived assets to reflect these assets at their fair value.

The timely charge-off of loss loans is a key factor in funding and maintaining the "Allowance for Loan Losses" account. A charge-off policy, adopted by the board of directors, must provide the "triggering" guidelines ensuring that nonperforming assets are charged off in a timely manner.

Any credit union may at its option establish separate "Allowance for Loan Loss" accounts for each of its various categories of loans, i.e., "Allowance for Loan Losses-Consumer Loans" and "Allowance for Loan Losses-Lines of Credit", etc.

At least quarterly or at the end of each regular share account dividend period, or more often as required, the balance in these accounts should be adjusted to provide a credit balance at least equal to the credit union's best estimate of probable losses inherent in the total portfolio. The amount of periodic adjustments should be determined by each credit union after all charge offs and recoveries applicable to the period have been recorded.

There is no one method that is guaranteed consistently, in all instances and under every circumstance, to ensure that the allowance for loan losses (ALL) is adequate and in compliance with GAAP. The AICPA audit guide, "Audits of Credit Unions," states, "More important than the method credit union management uses to determine the ALL amount, is adequacy of the ALL as a whole.

"There are various methods by which management can estimate its ALL; no single method is preferable... the method used should be consistent, comprehensive, logical, and relevant to the institution's particular circumstances, and ... the calculation should be comprehensive, taking into account the risks inherent in the various types of lending."

The AICPA audit and accounting guide referenced above indicates that the ALL should typically include estimated amounts to cover loan losses as follows:

- a) A specific portion to cover specifically identified doubtful or troubled loans.
- b) A specific portion for pools of classified loans.
- c) A specific portion for pools of loans.
- d) A general portion for all other loans and credit instruments.

“Normally, a range of loss or an estimated loss percentage is associated with each component ... The percentage is then applied to the components ... to determine the estimated loss for each. Tests should be performed to provide reasonable assurance that loans are not excluded from a component or segment. The estimated losses assimilated with the individual components are then accumulated to obtain the total (ALL).

“The amounts provided for individual loans and pools of loans should be supplemented by a general portion for inherent losses. That amount should be based on judgments regarding risk of misstatement in the specific ALL for individual loans and pools of loans, exposures existing in the loan portfolio, and other relevant factors.

“Where appropriate, management should use analytical methods to evaluate the ALL. Analytical methods alone generally do not produce acceptable results, therefore, management may wish to perform detailed loan reviews. (For example, an evaluation of real estate loans and business loans normally requires a more detailed review than consumer loans because the amount of individual loans is generally large and the types of borrowers and the purposes of the loans may be dissimilar.) In evaluating the amount or range of loss associated with an individual loan, management should review the expected sources of repayment and the apparent ability of the borrower to generate such repayment.

Management Considerations. Loan underwriting should be strongest, and the need for a substantial ALL least likely, when management has:

- a) A good understanding of the lending environment and approximates the value of credit strategy and credit risk including: collateral risk, concentration risk, management risk, operations risk, and fraud or insider abuse risk.
- b) Established a good system of lending policies, procedures and internal controls to guide loan origination and disbursement: credit initiation, credit investigation, loan approval documentation of credit, perfection of collateral interest, disbursement of loan proceeds, credit monitoring, collection, and internal loan review.

Timely review of all outstanding loans is needed to ensure the “Allowance for Loan Losses” account is always adequate for potential needs. Monthly action to adjust the account is recommended, since the collection staff is usually aware of potential losses on a continuing basis. By monitoring the account monthly, large additions should not be required in the Provision for Loan Losses account, since the

account is being adjusted more frequently. By adjusting the account monthly, the financial statement should always present the true value of the credit union's loan portfolio. Reference is also made to Section 702.3 of the NCUA Rules and Regulations which discusses the matter of full and fair disclosure of the credit union's financial condition.

Accounting Treatment

The "Allowance for Loan Losses" should be charged with the amount of uncollectible loans and loan derived assets (Account Nos. 701-718) which have been authorized for write-off by the board of directors. Likewise, recoveries on loans charged off should be credited to this account.

The balance carried in the "Allowance for Loan Losses" represents a general provision for losses on loans and related assets, and may not specifically apply to any particular loan. When charge offs are required, they are charged against the "Allowance for Loan Losses," regardless of whether or not the particular loan to be written off was previously considered a potential loss.

When charges to the "Allowance for Loan Losses" account seriously deplete the account so that it does not represent a fair current estimate of probable loan losses from both the current and the delinquent loans outstanding, a review of loans is required. Based on the review, a debit or credit adjustment is made to the "Allowance for Loan Losses" account. As previously noted, the resulting balance of the "Allowance for Loan Losses" must fairly reflect all potential losses from the current loan portfolio and current estimated loan losses from delinquent loans.

Prior Period Adjustments-Allowance for Loan Losses Account

Sometimes it is necessary to adjust the credit union's books to reflect a prior period understatement of the Allowance for Loan Losses. (NOTE: This discussion does not relate to the routine adjustment of the Allowance for Loan Losses during the examination process.) If the adjustment clearly relates to a prior period, as that term is understood by independent accountants, the adjustment should be accounted for and reported as a prior period adjustment and excluded from the determination of net income for the current period. Prior period adjustments to the Allowance for Loan Losses should only occur in relation to the correction of an error in financial statements of a prior period, e.g., an error in the Allowance for Loan Losses in December 31, 1987 financial statements discovered during the March 1989 audit of December 31, 1988 financial statements. Such adjustment should be rare.

Entries in the Journal and Cash Record

All entries to this account should be made from the Miscellaneous-Credit or Miscellaneous-Debit columns of the Journal and Cash Record. The entries should be supported by Journal Vouchers showing full explanations of the individual transactions.

Posting to Individual Ledger

Entries showing the charge off of a loan should be identified as such in the Individual Loan Ledger of the borrower. It is suggested that the individual ledgers for all loans charged off be separated from the other ledgers.

When recoveries are made, a memorandum record may be made on the Individual Loan Ledger to show: (1) the gross amount paid by the borrower, (2) collection costs, if any, deducted by or paid to an outside collection agency, (3) interest credited to the appropriate "Interest on Loans", (Account Nos. 110-118), (4) the net remittance received by the credit union, and (5) the amount credited to this account. Because of varying practices and agreements with collection agencies, memorandum entries should be adapted to fit the needs of each credit union.

Illustrative Entries

- a) To establish or increase the credit balance, and to eliminate a debit balance, in this account:

Dr.-Provision for Loan Losses	
(Acct. No. 301)	\$1,000.00
Cr.-Allowance for Loan Losses	
(Acct. No. 719)	\$1,000.00

- b) To decrease the credit balance in this account:

Dr.-Allowance for Loan Losses	
(Acct. No. 719)	\$400.00
Cr. - Provision for Loan Losses	
(Acct. No. 301)	\$400.00

- c) To record the charge off of loans when authorized by the board of directors:

Dr.-Allowance for Loan Losses	
(Acct. No. 719)	\$350.00
Cr. - Loans (Acct. No. 701)	\$350.00

NOTE: The credit for this entry may involve any account in the 700-710 series depending on the particular loan or loan derived asset authorized for charge off.

- d) To record recoveries realized on loans charged off:

Dr.-Cash (Acct. No. 731)	\$30.00
Cr. - Allowance for Loan Losses	
(Acct. No. 719)	\$30.00

- e) When recovery is made on a loan previously charged off which has been placed in the hands of an outside collection agency and the agency withholds its fee from the amount remitted to the credit union (paid by borrower, \$17.40; fee withheld, 20 percent; remitted \$13.92):

Dr.-Cash (Acct. No. 731)	\$13.92
Cr. - Allowance for Loan Losses	
(Acct. No. 719)	\$13.92

Detailed Transactions

Credit:

- With adjusting entries made to establish or increase the credit balance, or to create a debit balance, in these accounts.
- With recoveries on loans previously charged off.
- With the amount of cash received or the full amount the borrower paid to a collection agent (collection fee being debited to Collection Expense in Account No. 282).

Debit:

- With loans and loan derived assets (700-718 series of accounts) charged off with the authorization of the board of directors.
- With adjusting entries made to decrease the credit balance of these accounts.

Illustrated below are the various types of transactions that would be encountered in using an "Allowance for Loan Losses", (Account No. 719). General Ledger "T" accounts have been used to picture the activity in each General Ledger account. As you progress from transaction no. 1 to transaction no. 4, the "T" accounts will include any previous entries made for transactions involving the same account.

ILLUSTRATED ALLOWANCE FOR LOAN LOSSES ACCOUNTING

- Periodic transfers to Allowance for Loan Losses. (The reverse entry is made for decreases in the Allowance for Loan Losses)

Expense Account		Valuation Allowance Account	
#300 - Provision for Loan		#719 - Allowance for Loan	
Losses		Losses	
(1) \$2,000			(1) \$2,000

- b) Loans charged off of \$300. (Recoveries on charged-off loans are credited to the Allowance for Loan Losses with corresponding debit entry to cash received.)

Asset Account #700 - Loans to Members		Valuation Allowance Account #719 - Allowance for Loan Losses	
	(2) \$300	(2) \$300	

- c) Closing of expense account. (This account should be closed, together with all other expense accounts through the net income (loss) account to the Undivided Earnings account).

Expense Account #300 - Provision for Loan Losses		Equity Account #940 - Undivided Earnings	
(1) \$2,000	(3) \$2,000	(3) \$2,000	

- d) The amount expensed to Account No. 300 Provision for Loan Losses during the period is transferred from the Regular Reserve to Undivided Earnings. (The reverse entry would be made if the balance of Account No. 300 were a credit amount.)

Equity Account #931 - Regular Reserve		Equity Account #940 - Undivided Earnings	
(4) \$2,000		(3) \$2,000	(4) \$2,000

720-OTHER RECEIVABLES

The 720 series of accounts are used to record claims of the federal credit union for money, goods, or services from other entities or persons. The primary "trade debtors' accounts" of a federal credit union are evidenced by loans to members and other notes and contracts receivable that are recorded in the 700 and 710 series of accounts. For recordkeeping purposes, Account No. 720 should only be used to record the sum of the 720-series of accounts.

721-PAYABLE DEDUCTIONS RECEIVABLE

This account is used to record payroll receivables from members' employers prior to the credit union's receipt of the funds by check, magnetic or electronic media. A debit balance in this account indicates that an employer's payroll(s) was/were not received on the date(s) agreed upon by the employer and the federal credit union (see Section 5090.3, "Set Date").

Illustrative Entries

Dr.-Payroll Deductions Receivable	
(Acct. No. 721)	\$25,000.00
Cr.-Undistributed Payroll	
Deductions or Allotments	
(Acct. No. 803)	\$25,000.00

Detailed Transactions

Debit:

- a) With an estimated amount receivable from an employer that has not been received on the “set date.”

Credit:

- a) With the similar amount when received from the employer.

722-RECEIVABLES FROM OFFICIALS AND EMPLOYEES

This account is used to record accounts receivable due from officials and employees of the credit union. This account is not used to record loans to members. Examples of receivables might include: travel advances outstanding while an employee is at the CUNA management school and issuance of a second (or duplicate) payroll check to an employee after the employee reports that the first check was lost or misplaced.

Illustrative Entries

-
- a) To record a travel advance to an employee:

Dr.-Receivables from Officials	
and Employees (Acct. No. 722)	\$500.00
Cr.-Cash (Acct. No. 731)	\$500.00

- b) To record the employee’s claim for travel expenses and application of the advance:

Dr.-Employees’ Travel and	
Conference Expenses	
(Acct. No. 231)	\$555.00
Cr.-Receivables from Officials	
and Employees (Acct. No. 722)	\$500.00
Cr.-Cash (Acct. No. 731)	55.00

Detailed Transactions

Debit:

- a) With the amount of a travel advance to an employee attending a credit union related school or conference.

Credit

- a) With the actual expenses incurred by an employee attending a credit union related school or conference up to the amount advanced.

723-LEASE PAYMENTS RECEIVABLE

This account reflects the amount of the original lease payments to be received by a lessor under a direct financing type lease. The account should be credited with the periodic lease payments received from the lessee. Reference should be made to Section 6000 for further explanations of a direct financing type lease and its related accounting entries.

724-INSURANCE PREMIUMS RECEIVABLE

This account is used to record the unpaid balance of amounts due from member-borrowers in payment of reimbursable premiums paid out by the credit union for insurance covering property accepted as security for loans and for life insurance protection (borrowers' protection insurance). Only insurance premiums advanced for which the credit union is to be reimbursed by the borrowers are to be recorded in this account.

This account is not to be used for insurance premiums advanced at the time a loan is made to a member. Such advances should be included as a part of the loan and the grand total set forth in the note. If members desire the credit union to advance such insurance premiums they should apply for a loan which should be processed in the same manner as all other loan applications are handled.

In those cases where it is agreed that the borrower shall provide such insurance and continue it in force during the period the loan is unpaid, it is suggested that a written agreement to this effect, containing an authorization for the credit union to advance the premium for continuing the insurance, be obtained at the time the loan is granted. This agreement may be included in the loan application, the lien instrument, or a separate contract. If interest is to be collected on such advances, provision for the interest should be made in the agreement. In the event the hen ms t or other written agreement allows the credit union to add these premium advances to the borrowers' loan balance, the credit union should account for these advances in "Loans", (Account No. 701), rather than Account No. 724. Account No. 724 should also be used to record insurance premium advances made on outstanding Notes and Contracts Receivable.

Since insurance on property accepted as security for loans is obtained primarily for the benefit of the borrower, it is appropriate to require the borrower to furnish such insurance. If he does not pay the premiums thereon when due, the credit union may advance such premiums, charge them to this account, and collect them later, by reimbursement from the borrower in accordance with an agreement.

Amounts charged to this account represent amounts due from borrowers which are advanced by the credit union to continue insurance coverage when the borrower does not pay the premium when they come due. These amounts should not be confused with funds collected, in advance by the credit union, for remittance to the insurance company for the borrower. Such amounts collected in advance are recorded in "Accounts Payable", (Account No. 801).

Entries in Journal and Cash Record

This account is debited in the "Miscellaneous Debit" column when a check is issued in payment of the insurance premium involved. This account is credited in the "Miscellaneous-Credit" column with the amounts of funds received from member/borrowers in payment of insurance premiums, and with the charge off of any uncollected items remaining after the related loans are either charged off or security repossessed.

The charge off of such items remaining in this account should be debited to "Miscellaneous Operating Expenses", (Account No. 370). Entries covering the charge off of insurance premiums receivable should be identified as such in the member's Individual Share and Loan Ledger accounts, and recoveries applicable to such items should be recorded in these accounts as memorandum information showing the amount recovered by the credit union, and the date the recovery was received.

Posting General Ledger

Each entry involving this account is posted individually to the General Ledger from the "Miscellaneous" columns of the Journal and Cash Record. The "Explanatory Remarks" column should show clearly the necessary dates of entries posted to this account such as the name of the individual from whom the amount is receivable. If separate columns are used in the Journal and Cash Record for entries to this account, the total amounts of these columns should be debited and credited respectively to the "Insurance Premiums Receivable" account in the General Ledger at the close of each month.

Posting to Subsidiary Ledger

If the number of these items necessitates a subsidiary ledger, a separate sheet of Form FLU 102 may be kept for each member involved. Appropriate headings identifying the account and person connected should be provided.

Debit entries for amounts received in payment of Premiums due from borrowers are posted from Cash Received Vouchers (Form FLU 105) to the Journal and Cash Record debit column of either the "Miscellaneous" or "Insurance Premium Receivable" columns. Credit entries, such as uncollected amounts charged off, are posted from "Miscellaneous Credit" column or from the "Insurance Premiums Receivable" credit column of the Journal and Cash Record, whichever column is used by the credit union for credit entries to this account.

The total of the balances of the subsidiary accounts should equal the balance of the General Ledger Account No. 724, and should be proved therewith at least monthly. The monthly lists of these balances should be retained as part of the credit union's records.

The credit union may find it advisable to make an entry in the "Memorandum" column of the borrower's individual loan ledger account in order to avoid the possibility of overlooking collection of these premiums from borrowers.

Illustrative Entries

- a) When a check is issued by the credit union in payment of an insurance premium that is reimbursable by the borrower:

Dr.-Insurance Premiums Receivable	
(Acct. No. 724)	\$50.00
Cr.-Cash (Acct. No. 731)	\$50.00

- b) When the member-borrower reimburses the credit union for the insurance premium paid:

Dr.-Cash (Acct. No. 731)	\$50.00
Cr.-Insurance Premiums Receivable (Acct. No. 724)	\$50.00

- c) When the insurance premium receivable is charged to the member's loan account:

Dr.-Loans (Acct. No. 701)	\$50.00
Cr.-Insurance Premiums Receivable (Acct. No. 724)	\$50.00

Detailed Transactions

Debit:

- a) With the issuance of a check in payment of an insurance premium that is reimbursable by the borrower.

Credit:

- a) With a payment from the borrower to reimburse the credit union for the insurance premium paid.
- b) With a charge of the premium payment to the member's share or loan account.

725-ADVANCES FOR TAXES, INSURANCE, AND OTHER CHARGES

This account is used to record advances made for real estate property taxes, insurance and other charges involved in the purchase of real estate loans. Usually, the servicer (institution selling the loans) will handle the processing of escrow accounts for property taxes, insurance and other charges. Thus, no accounting would be needed by the purchasing credit union, unless the borrower's escrow account becomes overdrawn by the servicer's payment of these charges. This account would thus be used to record the amount of reimbursement requested by the servicer. Refer to Section 6000 for an illustrative entry and for additional instructions in the use of this account.

727-U.S. SAVINGS BONDS REDEEMED RECEIVABLE

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as redemption or repurchase agents of the U.S. Treasury Department for the sale of U.S. Savings Bonds. Only those credit unions that have applied to the U.S. Treasury and have been approved as issuing and/or payment agents may engage in savings bonds transactions. Both members and nonmembers of the credit union can participate in these transactions.

This account should reflect amounts due from the U.S. Treasury for U.S. Savings Bonds redeemed. When payments are made to redeem bonds, the amounts disbursed should be debited to Account No. 727. When remittances are received from the Federal Reserve Bank for the value of the bonds transmitted for reimbursement, this account should be credited.

Illustrative Entries

-
- a) When U.S. Savings Bonds are redeemed by a member for cash or credit to shares:

Dr.-U.S. Savings Bonds Redeemed	
Receivable (Acct. No. 727)	\$19.75
Cr.-Cash (Acct. No. 731)	\$19.75

or

Cr.-Regular Shares (Acct. No. 901)	\$19.75
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- b) When a remittance is received from the Federal Reserve Bank for the value of redeemed bonds and notes shipped:

Dr.-Cash (Acct. No. 731)	\$19.75
Cr.-U.S. Savings Bonds Redeemed	
Receivable (Acct. No. 727)	\$19.75

Detailed Transactions

Debit:

- a) With the payment made to a member for the redemption of a U.S. Savings Bond. The payment could be made from cash or recorded as a deposit to the member's share account.

Credit:

- a) With a payment from the Federal Reserve Bank for the value of the redeemed savings bonds.

728-REAL ESTATE LOANS RECEIVABLE

This account is used to record the receivables for disbursements made by the credit union on a real estate loan transaction for which the credit union is to be reimbursed by the buyer, the seller, or some other party. The account should also be used for certain other receivables related to real estate loans such as earnest money or prepayments held by others and payable to the credit union.

Illustrative Entries

-
- a) To record payment of the appraisal fee on property, such a fee to be reimbursed to the credit union by the settlement agent:

Dr.-Accounts Receivable - Real Estate	
Loans (Acct. No. 728)	\$300.00
Cr.-Cash (Acct. No. 731)	\$300.00

- b) To record reimbursement for the appraisal fee received from the settlement agent:

Dr.-Cash (Acct. No. 731)	\$300.00
Cr.-Accounts Receivable - Real	
Estate Loans (Acct. No. 728)	\$300.00

Detailed Transactions

Debit:

- a) With amounts disbursed by the credit union on real estate loans, such amounts to be reimbursed to the credit union by another party.

Credit:

- a) With the amounts of reimbursement for fees relating to real estate loans received by the credit union from another party.

729-OTHER ACCOUNTS RECEIVABLE

This account reflects the unpaid balance due the credit union for miscellaneous accounts receivable for which no other specific General Ledger account is provided.

This account should include such items as amounts due from an insurance carrier when losses covered by the insurance are sustained; e.g., robbery, physical property damage, etc. The amount of losses should be charged to this account when incurred and the insurance carrier's reimbursement to the credit union should be credited to the account. Differences, if any, between the loss charged and the reimbursement amount should be written off to the proper expense classification.

This account also should include amounts due the credit union resulting from the sale of a fixed asset.

Illustrative Entries

-
- a) When a miscellaneous account receivable is established representing property repair costs resulting from windstorm damage reimbursable by the insurance carrier:

Dr.-Other Accounts Receivable	
(Acct. No. 729)	\$300.00
Cr.-Cash (Acct. No. 731)	\$300.00

- b) When a check is received for loss reimbursement from an insurance carrier in the amount of \$275.00:

Dr.-Cash (Acct. No. 731)	\$275.00
Dr.-Maintenance of Building	
(Acct. No. 252)	\$25.00
Cr.-Other Accounts Receivable	
(Acct. No. 729)	\$300.00

Detailed Transactions

Debit:

- a) With each accounts receivable due the credit union for which no other specific General Ledger account is provided.

Credit:

- a) With payments received in liquidation of receivables charged to this account.
- b) With the write-off of uncollectible amounts charged to this account with the approval of the board of directors.

729.1-TIL BOND CLAIM RECEIVABLE

This account reflects the unpaid balance due the credit union for bond claims filed for losses incurred as the result of interest overcharges that were in excess of the provisions of Regulation Z.

Illustrative Entries

- a) To record potential bond claim due to the credit union from the bonding company to achieve lump sum reimbursement for interest overcharges under Regulation Z:

Dr. -Truth in Lending Bond Claim

Receivable (Acct. No. 729.1) \$10,000

Cr. -Shares (Acct. Nos. 901-919) \$10,000

or

Cr. -Cash (Acct. No. 731) \$10,000

- b) To clear the receivable account when the bond claim is paid, assuming the full amount has been received:

Dr. -Cash (Acct. No. 731) \$10,000

Cr. -Truth in Lending Bond Claim

Receivable (Acct. No. 729.1) \$10,000

Detailed Transactions

Debit:

- a) With amounts due the credit union, from interest overcharges under Regulation Z.

Credit:

- a) With amounts received in reimbursement of payments made by the credit union.

729.2-TIS BOND CLAIM RECEIVABLE

This account reflects the unpaid balance due the credit union for bond claims filed for losses incurred under the National Credit Union Administration Rules and Regulations, Part 707.

Illustrative Entries

- a) To record potential bond claim due to the credit union from the bonding company:

Dr. -Truth in Savings Bond Claim

Receivable (Acct. No. 729.2) \$10,000

Cr. -Shares (Acct. Nos. 901-919) \$10,000

- b) To clear the receivable account when the bond claim is paid, assuming the full amount has been received:

Dr.-Cash (Acct. No. 731)	\$10,000
Cr.-Truth in Savings Bond Claim Receivable (Acct. No. 729.2)	\$10,000

Detailed Transactions

Debit:

- a) With amounts due the credit union, from dividend underpayments, overpayments, and/or disclosure errors under Part 707.

Credit:

- a) With amounts received in reimbursement of payments made by the credit union.

730-CASH

731-CASH

732-735-CASH (RESERVED FOR ADDITIONAL CASH ACCOUNTS)

These accounts are used to record cash in banks, savings banks, S&L, etc., and cash on hand, “vault” cash, cash in ATM machines, etc. Income-producing accounts (deposits) and certificates of deposits in banks, savings banks, and S&Ls, etc., are not included in the cash accounts. Because cash is the most liquid of assets, and is susceptible to being lost, stolen, and miscounted, federal credit unions should have an effective system of internal control for cash receipts, disbursements, recording, reconciliation, and review (audit).

Recordkeeping for cash transactions is facilitated by maintaining preprinted, standardized forms such as those identified and illustrated in Section 5020 of this manual.

Use of Cash Received Voucher

Cash received is first recorded on the Cash Received Voucher (Form FCU 105 or its equivalent). The total of each day’s cash receipts as shown by the daily Summary Cash Received Voucher is entered in the “Cash-Received” column of the Journal and Cash Record (Form FCU 101 or its equivalent). The items on each Cash Received Voucher pertaining to members are posted in the member’s account in the Individual Share and Loan Ledger (Form FCU 103 or its equivalent). All cash received should be deposited in the bank account within the time limits established by Article XV of the Federal Credit Union Bylaws (usually daily). The cash of the credit union should be kept separate and apart from all other cash. Personal or other cash of officers and employees should not be commingled with the credit union’s cash.

Disbursements

Disbursements should be made by check, except those authorized from petty cash and wire transfers. If the checks used by the credit union do not provide for a duplicate copy and voucher format, a Journal Voucher (Form FCU 106A) or its equivalent, should be prepared for each disbursement. Amounts disbursed are posted to the "Cash-Paid Out" column of the Journal and Cash Record.

The credit union may issue duplicate checks to payees who have lost their original checks. In such cases, a stop payment order to the bank should be issued against the original check. Before a new check is issued, it should be determined from the bank that the original check has not been paid. In doing so, credit unions may require an indemnity bond from the payee if circumstances warrant such action. The issuance of a duplicate check should be recorded in the Journal and Cash Record in "Date", "Account No..... Name of Item", and "Check No." columns with the purpose for its issuance noted in the "Name of Item" column. It is suggested that a cross-reference be made on the line on which the original check was entered.

If a duplicate check is issued in place of an original check still carried as outstanding in the cash amount, no entry of the amount should be recorded in the "Cash-Paid Out" column. If a duplicate check is issued in place of an original check which was transferred to Account No. 801 or Account No. 151, the new check number and the number of the check being replaced must be recorded. The amount of the duplicate check should be credited in the "Cash-Paid Out" column and debited to "Accounts Payable", (Account No. 801) or "Other Income", (Account No. 151), as required. in the "Miscellaneous-Debit" column.

Member's Check and Drafts Returned

When the bank returns a member's check or draft because of insufficient funds or any other reason, an entry should be made debiting "Other Accounts Receivable", (Account No. 729) and crediting "Cash", (Account No. 731) for the amount of the check plus any charges made for returning the check or draft. This entry sets up the check temporarily as an asset or receivable due from the member pending a determination of its collectibility. The member should be contacted immediately and the amount due collected from him. Upon payment by the member of the amount due, a reversing entry should be made debiting the "Cash" account and operating the "Other Accounts Receivable" account.

It is suggested that the amount collected be deposited separately in order that all checks or drafts returned and their subsequent redeposit can be easily traced through the credit union's records. A memorandum notation of the checks or drafts returned should be made on the member's Individual Share and Loan Ledger. The subsequent disposal of the check or draft, either by the member making it good or by charging it back against his account, should also be noted on the member's individual ledger.

The board of directors should determine whether the service charges in connection with returned checks or drafts are to be charged to the members concerned or are to be considered a credit union expense item. The amount of the service charge should, therefore, be either a debit to "Other Accounts Receivable" (or to the member's share account if the check or draft is not made good) or to "Bank Service Charges", (Account No. 268), depending upon the policy of the board. A fee may be assessed to members to recover costs involved in processing checks or drafts returned but the fee may not be in the

nature of a penalty. The fee may reflect, but not exceed, the direct and indirect costs involved in processing checks or drafts returned for insufficient funds. If the member does not make good on the returned check within I week following its return by the bank, the credits originally made should be reversed. Assuming the original check covered both shares and a payment on loan and interest, the entry in the Journal and Cash Record to reverse the original credits would be:

Dr.-Shares (Acct. No. 901)	\$5.00
Dr.-Loans (Acct. No. 701)	24.00
Dr.-Interest on loans (Acct. No. 111)	1.00
Cr.-Other Accounts Receivable (Acct. No. 729)	\$30.00

Posting to General Ledger

When the transactions which have been entered in the Journal and Cash Record are posted to the General Ledger accounts, the Cash account is debited with the total of the "Cash-Received" column and credited with the total of the "Cash-Paid Out" column. These totals are usually posted at the end of each month.

Depositing Cash

All cash received should be deposited in the bank account within the time provided by the Federal Credit Union Bylaws. Deposits should ordinarily be made in amounts which exactly equal one or more day's cash collections, as shown on the daily summary vouchers and in the Journal and Cash Record. Summary and deposit of part of a day's receipts is discussed in Section 5010.1.

Illustrative Entries

Receipt of Cash:

- a) When entrance fees and payments on shares are received from members:

Dr.-Cash (Acct. No. 731)	\$10.00
Cr.-Other Fees and Charges (Acct. No. 131)	\$2.00
Cr.-Shares (Acct. No. 901)	8.00

- b) When an installment on a loan is paid and interest and late charges are collected:

Dr.-Cash (Acct. No. 731)	\$11.20
Cr.-Loans (Acct. No. 701)	\$10.00
Cr.-Interest on Loans (Acct. No. 111)	1.00
Cr.-Fees and Charges (Acct. No. 113)20

- c) When payment is received for: loan interest of \$15.50, legal and collection expenses of \$10 deducted by an attorney or collection agency from the payment made by the borrower, and the remaining funds of \$72.50 applied to the borrower's loan balance (loan has not been charged off):

Dr.-Cash (Acct. No. 731)	\$88.00
Cr.-Interest on Loans	
(Acct. No. 111)	\$15.50
Cr.-Loans (Acct. No. 701)	72.50

NOTE: References should be made to Section 5100.1.2 for alternative methods that can be used in recording this transaction.

- d) When a refund, recovery, or adjustment of an expense is received:

Dr.-Cash (Acct. No. 731)	\$2.00
Cr.-Appropriate Operating Expense	
Account (200-300 Series)	\$2.00

- e) When interest or dividends are collected on investments:

Dr.-Cash (Acct. No. 731)	\$12.50
Cr.-Income from Investments	
(Acct. No. 121)	\$12.50

Disbursement of Cash by Check or Bank Charges

Illustrative Entries

- a) When a member withdraws cash from his share account:

Dr.-Shares (Acct. No. 901)	\$20.00
Cr.-Cash (Acct. No. 731)	\$20.00

- b) When a loan is made to a member:

Dr.-Loans (Acct. No. 701)	\$100.00
Cr.-Cash (Acct. No. 731)	\$100.00

- c) When a member having a note outstanding with a balance unpaid of \$10.00, gives a net note for \$50.00, and receives a \$40.00 check and his old note:

Dr.-Loans (Acct. No. 701)	\$50.00
Cr.-Cash (Acct. No. 731)	\$40.00
Cr.-Loans (Acct. No. 701)	10.00

NOTE: If the Journal Voucher (Form FCU 106A) is used, the new loan should be entered as a debit for the gross amount, the balance of the old loan as a credit item, and the voucher should show the net cash paid opposite "Amount" on the check.

- d) When an expense is incurred and paid upon receipt of bill:

Dr.-Appropriate Expense Account	
(200-300 series)	\$15.00
Cr.-Cash (Acct. No. 731)	\$15.00

- e) When a check is drawn on the bank to establish a petty cash fund::

Dr.-Petty Cash (Acct. No. 738)	\$10.00
Cr.-Cash (Acct. No. 731)	\$10.00

- f) When a loan is made to another credit union on its note, interest to be paid at maturity and check issued:

Dr.-Loans to Other Credit	
Unions (Acct. No. 747)	\$1,000.00
Cr.-Cash (Acct. No. 731)	\$1,000.00

- g) When the change fund is set up or increased:

Dr.-Change Fund (Acct. No. 739)	\$50.00
Cr.-Cash (Acct. No. 731)	\$50.00

- h) When a service charge is made by the bank:

Dr.-Bank Service Charges	
(Acct. No. 269)	\$1.75
Cr.-Cash (Acct. No. 731)	\$1.75

Detailed Transactions

Debit:

- With cash receipts.
- Bank reconciliation "addition" adjustments to the credit union's book balance.
- Checks or drafts for insufficient funds when they are redeposited.

Credit:

- a) With cash disbursements made by check.
- b) With bank services charges assessed by the bank, and other book balance “deduction” adjustments on the bank reconciliation.
- c) Checks or drafts returned for insufficient funds.

736-TREASURY TAX AND LOAN REMITTANCE

This account is for use by credit unions eligible to be designated as Treasury Tax and Loan depositories. Authority to become depositories is set forth in Section 701.37-1 of the NCUA Rules and Regulations. Applicable procedures and requirements are set forth in the Department of Treasury Regulations. Reference should be made to Section 6160 for further information.

737-CASH-U.S. BOND INSTALLMENT PAYMENTS

This account should reflect the balance of cash on deposit in a separate bank account established by the credit union for installment payments received on U.S. Savings Bonds.

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as agents for the U.S. Treasury Department for the sale of U.S. Treasury Bonds and Notes. Only those credit unions that have applied to the U.S. Treasury and have been approved as issuing and/or payment agents may engage in savings bonds and savings note transactions. Both members and nonmembers can participate in these transactions. See Section 5195, entitled “Sales and Redemption of U.S Savings Bonds.”

When installment payments are received from purchases of U.S. Savings Bonds or Notes, this Account No. 737 or “Cash”, (Account No. 731) should be debited and “Accounts Payable-Installment Payments on U.S. Bonds”, (Account No. 806), should be credited. When sufficient funds are available for the issuance of a bond for any purchaser or purchasers, the bonds should be issued and liability for installments received should be eliminated by debiting Account No. 806 for the purchase price of the bonds and crediting “Accounts Payable-U.S. Savings Bond Remittances”, (Account No. 807).

Illustrative Entries

-
- a) To record receipts of installment purchases of U.S. Savings Bonds:

Dr.-Shares - U.S. Bond Installment	
Payments (Acct. No. 737)	\$122.50
Cr.-Accounts Payable - Installment	
Payment on U.S. Bonds	
(Acct. No. 806)	\$122.50

- b) To record the issuance of a fully-paid bond:

Dr.-Accounts Payable - Installment	
Payment on U.S. Bonds	
(Acct. No. 806)	\$150.00
Cr.-Accounts Payable - U.S.	
Savings Bond Remittances	
(Acct. No. 807)	\$150.00

- c) To record the cancellation of a bond authorization and pay the subscriber the balance of the installment contract:

Dr.-Accounts Payable - Installment	
Payment on U.S. Bonds	
(Acct. No. 806)	\$12.50
Cr.-Cash - U.S. Bond Installment	
Payments (Acct. No. 737)	\$12.50

- d) To record remittance made to the Federal Reserve Bank for bonds issued under the installment payment plan:

Dr.-Accounts Payable - U.S.	
Savings Bond Remittances	
(Acct. No. 807)	\$150.00
Cr.-Cash - U.S. Bond Installment	
Payments (Acct. No. 737)	\$150.00

Detailed Transactions

Debit:

- a) With cash received representing payments of installments on the purchase of U.S. Savings Bonds.

Credit:

- a) With withdrawals by purchaser of deposits made for the purchase of U.S. Savings Bonds.
- b) With remittances to the Federal Reserve Bank to cover the cost of bonds issued to installment purchasers.

738-PETTY CASH

This account is used to record the authorization of a Petty Cash Fund by the board of directors in accordance with Article XV of the Federal Credit Union Bylaws. The purpose of petty cash funds is for making incidental payments such as postage and for defraying other expense items of less than \$50.

Payments from the petty cash fund must be evidenced by receipts or signed petty cash vouchers. Payments from the petty cash fund should not be posted to the Journal and Cash Record.

Setting up Petty Cash Fund

Debit this account in the "Miscellaneous-Debit" column of the Journal and Cash Record for the gross amount withdrawn by check from the bank to establish a petty cash fund. No subsequent debits or credits to the account should be made except for the purpose of increasing or decreasing the amount of cash to be maintained in the fund. The amount set up in this fund should not exceed the maximum authorized by the board.

Posting to the General Ledger

Posting to this account in the General Ledger is made from the "Miscellaneous" columns of the Journal and Cash Record.

Payments for Petty Cash Fund

As payments are made out of the fund, receipts or signed petty cash vouchers should be obtained and held with the balance of the cash in the fund so that at all times the actual cash and/or receipts will equal the total amount of the fund. No entry should be made in the Journal and Cash Record for individual petty cash payments.

Replenishment

The petty cash fund should be restored in full prior to the end of each dividend period, and at other times when necessary, in order that expenditures made may be recorded and that the cash in the fund will be equal to the balance in the General Ledger. When replenishment of the fund is necessary, a Journal Voucher (Form FCU 106A or its equivalent) should be prepared and a check drawn in favor of "Petty Cash". Upon cashing the check, actual cash for the total of the fund should be on hand. The receipts, which were received when disbursements were made from the fund, equaling the amount of the check should be attached to the Journal Voucher or filed with other paid bills.

Entry in Journal and Cash Record

When the petty cash fund is replenished, the transaction is entered in the Journal and Cash Record by debiting all of the applicable expense accounts (200-300 series) and crediting the Cash account (Cash-Paid Out). Unless it is applicable, the total cost of the replenishment should not be debited to Miscellaneous Operating Expenses" (Account No. 370). This entry does not affect the Petty Cash account as set up on the books.

Changes in Amount of Fund

If it is decided to reduce the amount of cash in the fund, a Cash Received Voucher (Form FCU 105 or its equivalent) should be prepared and at the end of the day when the cash received transactions are recorded in the Journal and Cash Record, the amount should be entered in the "Miscellaneous-Credit" column as received from "Petty Cash." The amount taken from the fund is then deposited with other cash received that day.

Segregation of Fund

The petty cash fund must at all times be kept physically separate and apart from all other cash. The supervisory committee should verify the balance of the petty cash fund periodically by conducting surprise cash counts.

Illustrative Entries

-
- a) To establish the petty cash fund:

Dr.-Petty Cash Fund (Acct. No. 738)	\$25.00	
Cr.-Cash (Acct. No. 731)		\$25.00

- b) To replenish the fund:

Dr.-Various Operating Expense Accounts (200-300 Series)	\$16.79	
Cr.-Cash (Acct. No. 731)		\$16.79

- c) To reduce or eliminate the petty cash fund:

Dr.-Cash (Acct. No. 731)	\$20.00	
Cr.-Petty Cash Fund (Acct. No. 738)		\$20.00

Detailed Transactions

Debit:

- a) With amount of cash disbursed to establish the Petty Cash Fund.
- b) With amount of cash disbursed to increase the Petty Cash Fund.

Credit:

- a) With amount of cash received (or vouchers recorded) representing a decrease in the Petty Cash Fund or creation of the Fund.

739-CHANGE FUND

An FCU's board of directors may authorize the establishment of a Change Fund after it considers whether there is a need for it. This account is provided for those federal credit unions that maintain a cash fund for making change or for cashing checks. Other purposes for which a change fund may be used are to disburse share withdrawals or loans in cash, as discussed in Section 5050.2.2, or for redeeming U.S. Savings Bonds in cash. The board of directors must ensure that adequate safeguards and accountability exist to protect the fund.

This account is also used to reflect increases made to the change fund when to meet temporary demands for cash, such as on member's pay days. Funds involved in these temporary increases to the change fund should be redeposited as soon as the need for them is served. In the event the actual cash (currency and coins) is depleted by members' checks cashed from the fund, such checks should be deposited in the bank with the regular deposit and this account credited with the amount of the checks deposited. The fund should be replenished only by credit union checks which are drawn for the purpose and charged to this account.

Varying procedures for handling change funds may be found in Section 5050.2.2.

Entries in Journal and Cash Record

Debit this account in the "Miscellaneous-Debit" column and credit Cash in the "Cash-Paid-out" column with the amount withdrawn from the bank by check to establish or to increase the fund. Credit this account in the "Miscellaneous-Credit" column and debit Cash in the "Cash-Received" column with the amount of the fund redeposited.

Posting to General Ledger

Entries to this account are posted individually from the "Miscellaneous" columns of the Journal and Cash Record.

Verification of Fund

The amount of the fund should be verified by a count at the end of each business day. When the fund or portions thereof are handled by more than one person, precautionary measures to establish the responsibility of the individuals concerned should be taken.

Illustrative Entries

-
- a) When the change fund is set up or increased:

Dr.-Change Fund (Acct. No. 739)	\$50.00
Cr.-Cash (Acct. No. 731)	\$50.00

- b) When the change fund is decreased or eliminated:

Dr.-Cash (Acct. No. 731	\$50.00
Cr.-Change Fund (Acct. No. 739)	\$50.00

Detailed Transactions

Debit:

- a) With amount of cash disbursed to establish the Change Fund.
- b) With amount of cash disbursed to increase the Change Fund.

Credit:

- a) With amount of member's checks cashed from the Change Fund and deposited in the bank with the regular deposit.
- b) With amount of cash received representing a decrease or the elimination of the Change Fund.

740 TO 759-INVESTMENTS

Sections 107(7) and 107(8) of the Federal Credit Union Act and Part 703 of the NCUA Rules and Regulations establish and describe the types of securities, deposits, and other obligations in which the federal credit unions can invest. In addition, Section 107(7)(1) of the Federal Credit Union Act and Part 701.27 of NCUA Rules and Regulations establish and describe credit union investments in credit union service organizations. Credit union investments and deposits which earn interest or dividend income should be classified in the appropriate General Ledger account in the 740-750 Series.

741-HELD-TO-MATURITY SECURITIES

741.1-DISCOUNT ON HELD-TO-MATURITY SECURITIES

741.2-PREMIUM ON HELD-TO-MATURITY SECURITIES

These accounts are used to record all securities for which the credit union has the intent and ability to hold to maturity. Types of securities properly recorded in this account include obligations of the United States of America or securities which are fully guaranteed as to both principal and interest thereby:

- a) Appreciation type, U.S. Government Obligations are generally purchased at a discount. Income is recorded periodically through accretion of discount (systematic reduction of discount by charge to income) and based on tables of redemption provided by the U.S. Treasury. By the manner in which income is earned, zero coupon bonds are a special class of "appreciation type" obligations.
- b) Current income type. The U.S. Government Obligation is purchased at face value (par value) and a uniform interest rate is paid semiannually by check during the life of the savings bond.

- c) General type of obligations. These U.S. Government Obligations are purchased on the open market or subscribed for at the time of the original issue. They may be registered with periodic interest checks being sent to the credit union, or interest may be received by cashing coupons which mature at stated intervals.

Also included are so-called “agency” securities and participation certificates as permitted by the Federal Credit Union Act. The “agency” securities are bonds, notes and debentures issued by agencies of the United States Government and secured by collateral owned by these agencies. They are not guaranteed by the United States. Information about “agency” securities can be obtained from banks as well as from dealers in securities. The Federal Reserve bulletin publishes a list of securities outstanding by each agency. “Agency” securities may be purchased on the open market. Information on participation certificates can be obtained by contacting the Government National Mortgage Association or the Federal National Mortgage Association.

When the securities are acquired, each credit union shall assess its intent and ability with regard to its securities holdings. It then must assign its debt and equity securities to the appropriate measurement category: trading, held-to-maturity, or available-for-sale. Not less frequently than the end of each dividend period (i.e., monthly, quarterly, semi-annually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value measurement (trading and available-for-sale), shall be assessed.

Debt securities (not equity) that the enterprise has the positive intent and ability to hold to maturity shall be classified as securities held-to-maturity and reported at amortized cost, i.e., cost adjusted for the amortization of premiums or the accretion of discounts. To qualify as having established intent to hold to maturity, the credit union cannot have an intent to hold the security only for an indefinite period. If the credit union may sell the security due to:

- changes in market interest rates and related
- changes in prepayment risk,
- needs for liquidity,
- changes in funding sources and terms,
- changes in the availability of and the yield on alternative security, etc.,

the credit union has failed to meet the “hold-to-maturity” test. A credit union’s alternatives are to classify the security as either *available-for-sale* or in a *trading account*.

Through an established and documented asset-liability management strategy, a credit union may decide that it can accomplish the necessary liquidity, funds management, and management of interest rate risk goals without having all of its debt securities available-for-sale. Measurement standards acknowledge that even though a credit union considers the maturity and repricing characteristics of all of its debt securities as part of its asset-liability management, the credit union may determine that it can carry out

the ongoing adjustments to its asset-liability position without having all of its debt securities *available-for-sale*. In such a situation, the credit union may earmark specific debt securities as unavailable to be sold for purposes of adjusting its asset-liability position. This would enable the earmarked securities to be placed in the *held-to-maturity* category provided the credit union otherwise has the positive intent and ability to hold them to maturity.

A credit union could experience any of the following “changes in circumstances” which may cause a credit union to sell or transfer a *held-to-maturity* security to another classification without raising questions about whether it was appropriate for that security to have been reported previously as *held-to-maturity*:

- a) A significant deterioration in the issuer’s creditworthiness.
- b) A merger, purchase and assumption, or other business combination that necessitates the sale or transfer of *held-to-maturity* securities to maintain the credit union’s existing interest-rate risk position or credit risk policy.
- c) A change in statutory or regulatory requirements causing the credit union to dispose of a *held-to-maturity* security (e.g., mandated change to risk based capital reserving structure).
- d) A significant increase by the regulator in capital requirements that causes the credit union to downsize by selling *held-to-maturity* securities.

Additionally, a credit union can successfully defend the sale of a *held-to-maturity* security, prior to maturity, under either of the two conditions:

- a) The sale is so near the maturity date that the security’s value is little affected by changes in market interest rates.
- b) The sale occurs after the credit union has already collected a substantial portion (e.g., 85 percent or more) of the principal outstanding at acquisition.

Reverse repurchase and repurchase arrangements do not in and of themselves preclude a credit union from placing such securities in the *held-to-maturity* category, provided the credit union otherwise has the positive intent and ability to hold the securities to maturity.

Detailed subsidiary records should be kept of held to maturity securities by type of security, including individual tracking of related cost, discounts and premiums, and fair value. Periodic reconciliation of the subsidiary records to this control account must be made.

Premium and Discounts

Securities may be acquired at a premium, a price in excess of face value, or at a discount, a price less than face value. For example, when a U.S. Government Obligation is purchased, only the par value of the security should be recorded in Account No. 741. Any discount or premium on the purchase should be recorded, respectively, in (Account No. 741.1), “Discount on Held-to-Maturity Securities”, or

(Account No. 741.2), "Premium on Held to Maturity Securities." See Illustrative Entries below. For presentation on the Statement of Financial Condition, discounts, (Account No. 741.1) should be deducted from, and premiums, (Account No. 741.2) should be added to Account No. 741, with the net amount being reflected as the balance of "Held-to-Maturity Securities", (Account No. 741) on the financial statement.

If the securities are purchased at a premium, the premium should be amortized over the period from date of acquisition to maturity or an earlier call date. If the securities are purchased at a discount, the discount should be accreted under the theory that the securities normally can be expected to increase in market value over their remaining life.

There are two popular methods of amortizing premiums and accreting discounts: The straight-line method and the interest method. The straight-line method results in equal periodic adjustments to earnings from the time of purchase to the maturity date or earlier call date. This method is simple to compute and affects earnings by the same amount each period. The interest method recognizes an amount in earnings each period that produces a constant yield equal to the market yield at the date of purchase. Under this method, the amount of discount accreted or premium amortized increases or decreases, respectively, each period so that over the course of holding the investment, a level yield on the investment is maintained.

The interest method of accreting discount or amortizing premium should be used unless the results obtained when using the straight-line or other methods of amortization or accretion do not vary materially from those that would be obtained by the interest method.

Posting to the General Ledger

Entries to this account are posted individually from the "Miscellaneous" columns of the Journal and Cash Record.

Identification of Securities

Securities purchased and disposed of should be clearly identified in the "Explanatory Remarks" column of the General Ledger account. It is desirable to have a record of the name of the issue, the interest rate, the maturity and the serial numbers of the securities owned, and sold, so that this account will show the actual holdings of the credit union, and thus make verification easier. If there are several investments, subsidiary ledgers should be used as discussed in Section 5195.2.7.

Illustrative Entries

-
- a) Purchase of a U.S. Treasury obligation between interest dates, \$100,000 par, at a discount of \$6,657.50, paying \$95,453.91 which includes accrued interest of \$2,111.41. (NOTE: The credit union is charged for the cost of the obligation plus accrued interest income from the last interest date, 6/30/87, to the purchase date, 10/19/87.) Assume the Treasury note has a nominal

rate of 7 percent with a semiannual coupon payment. The annual yield to maturity is 8 percent, or 4 percent per coupon period. Using the interest method to accrete the discount, the accretion table would be as follows:

<u>Period</u>	<u>7% Coupon Interest (a)</u>	<u>8% Effective Interest (b)</u>	<u>Accretion Amount (c)</u>	<u>Carrying Amount (d)</u>	<u>Discount</u>	<u>Par Value</u>
6/30/87				\$93,342.50	\$6,657.50	\$100,000
12/31/87	\$3,500	\$3,733.70	\$233.70	93,576.20	6,423.80	
6/30/88	3,500	3,743.05	243.05	93,819.25	6,180.75	
12/31/88	3,500	3,752.77	252.77	94,072.02	5,927.78	

(a) = 7% divided by 2 periods/year x \$100,000.

(b) = 8% divided by 2 periods/year x d.

(c) = (b) - (a).

(d) = Previous (d) balance + (c).

Dr.-Held-to-Maturity Securities

(Acct. No. 741) \$100,000.00

Dr.-Accrued Income from

Investments (Acct. No. 782) 2,111.41

Cr.-Cash (Acct. No. 731) \$95,453.91

Cr.-Discount on Held-to-Maturity

Securities (Acct. No. 741.1) 6,657.50

b) To record the receipt of interest on 12/31/87 and the accretion of the discount, 10/20/87 through 12/31/87:

Dr.-Cash (Acct. No. 731) \$3,500.00

Dr.-Discount on Held-to-Maturity

Securities (Acct. No. 741.1) 92.72*

Cr.-Income from U.S. Government

Obligations (Acct. No. 121) \$1,481.31

Cr.-Accrued Income from

Investments (Acct. No. 782) 2,111.41

* - \$233.70 (Table above) x $\frac{73}{184}$ days (10/20 - 12/31/87)
days (7/ - 12/31/87)

- c) To accrue income and accrete the discount for the period. 1/1/88 through 3/31/88:

Dr.-Discount on Held-to-Maturity	
Securities (Acct. No. 741.1)	\$121.52
Dr.-Accrued Income on	
Investments (Acct. No. 782)	1,750.00
Cr.-Income from U.S. Government	
Obligations (Acct. No. 121)	\$1,871.52

- d) To record the receipt of interest on 6/30/88 and the accretion of the discount, 4/1/88 through 6/30/88:

Dr.-Cash (Acct. No. 731)	\$3,500.00
Dr.-Discount on Held-to-Maturity	
Securities (Acct. No. 741.1)	121.52
Cr.-Income from U.S. Government	
Obligations (Acct. No. 121)	\$1,871.52
Cr.-Accrued Income from	
Investments (Acct. No. 782)	1,750.00

- e) To record the sale of the U.S. Treasury Obligations on 9/30/88 @ \$94,500.00. (NOTE: Generally, an obligation of this type would be held longer than 11 1/2 months; this example is for illustrative purposes only:)

First, record the interest receivable from 7/1 to 9/30/88 and the associated accretion of the discount:

Dr.-Accrued Income on	
Investments (Acct. No. 782)	\$1,750.00
Dr.-Discount on Held-to-Maturity	
Securities (Acct. No. 741.1)	126.38
Cr.-Income from U.S. Government	
Obligations (Acct. No. 121)	\$1,876.38

Next, record the sale entry:

Dr.-Cash (Acct. No. 731)	\$96,250.00
Dr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)	6,054.37
Cr.-Held-to-Maturity Securities (Acct. No. 741)	\$100,000.00
Cr.-Accrued Income on Investments (Acct. No. 782)	1,750.00
Cr.-Gains on Investments (Acct. No. 420)	554.37

NOTE: The cash received equals the sales price plus accrued interest receivable.

<u>Period</u>	<u>7% Coupon Interest (a)</u>	<u>8% Effective Interest (b)</u>	<u>Accretion Amount (c)</u>	<u>Carrying Amount (d)</u>	<u>Discount</u>	<u>Par Value</u>
6/30/87				\$105,444.18	\$5,444.18	\$100,000
12/31/87	\$4,000	\$3,690.55	\$309.45	105,134.73	5,134.73	
6/30/88	4,000	3,679.71	320.28	104,814.45	4,814.45	
12/31/88	4,000	3668.50	331.49	104,482.96	4,482.96	

(a) = 8% divided by 2 periods/year x \$100,000.

(b) = 7% divided by 2 periods/year x (d).

(c) = (a) - (b).

(d) = Previous, balance (d) - (c).

- f) Purchase of a U.S. Treasury obligation between interest dates, \$100,000 par, at a premium of \$5,444.18, paying \$107,857.22 which includes accrued interest of \$2,413.04. (NOTE: The credit union is charged for the cost of the obligation plus accrued interest income from the last interest date, 6/30/87, to the purchase date, 10/19/87.) Assume the Treasury note has a nominal rate of 8 percent with a semiannual coupon payment. The annual yield to maturity is 7 percent, or 3.5 percent per coupon period. Using the interest method to amortize the premium, the amortization table would be as follows:

Dr.-Held-to-Maturity Securities (Acct. No. 741)	\$100,000.00
Dr.-Accrued Income from Investments (Acct. No. 782)	2,413.04
Dr.-Premium on Held-to-Maturity Securities (Acct. No. 741.2)	5,444.18
Cr.-Cash (Acct. No. 731)	\$107,857.22

- g) To record the receipt of interest on 12/31/87 and the amortization of the premium, 10/20/87 through 12/31/87:

Dr.-Cash (Acct. No. 731)	\$4,000.00
Cr.-Income from U.S. Government Obligations (Acct. No. 121)	\$1,461.19
Cr.-Premium on Held-to-Maturity Securities (Acct. No. 741.2)	122.77*
Cr.-Accrued Income from Investments (Acct. No. 782)	2,413.04

$$* - \$309.45 \text{ (Table, column (c))} \quad \times \quad \frac{73}{184} \quad \begin{array}{l} \text{days (10/20 - 12/31/87)} \\ \text{days (7/ - 12/31/87)} \end{array}$$

- h) To accrue income and amortize the premium for the period, 1/1/88 through 3/31/88:

Dr.-Accrued Income on Investments (Acct. No. 782)	\$2,000.00
Cr.-Income from U.S. Government Obligations (Acct. No. 121)	\$1,839.86
Cr.-Premium on Held-to-Maturity Securities (Acct. No. 741.2)	160.14

- i) To record the receipt of interest on 6/30/88 and the amortization of the premium, 4/1/88 through 6/30/88:

Dr.-Cash (Acct. No. 731)	\$4,000.00
Cr.-Income from U.S. Government Obligations (Acct. No. 121)	\$1,839.86
Cr.-Premium on Held-to-Maturity Securities (Acct. No. 741.2)	160.14
Cr.-Accrued Income from Investments (Acct. No. 782)	2,000.00

Journal entries similar to g-i should be made on a continuing basis each dividend period until the U.S. Government Obligations are sold or redeemed.

Additional Illustrative Entries

- a) When an "agency" security is purchased for investment:

Dr.-Held-to-Maturity Securities (Acct. No. 741)	\$1,000.00
Cr.-Cash (Acct. No. 731)	\$1,000.00

- b) If an “agency” security purchased at \$1,000 is sold for \$980, the loss is charged to “Gain (Loss) on Investment” (Account No. 420). For example:

Dr.-Cash (Acct. No. 731)	\$980.00
Dr.-Gain (Loss on Investments (Acct. No. 420)	20.00
Cr.-Held-to-Maturity Securities (Acct. No. 741)	\$1,000.00

- c) To record semiannual amortization of premium paid when securities were acquired. Assume \$600 premium paid in connection with purchase of 10%, \$10,000 par value of securities with a maturity date 10 years after date of acquisition:

Dr.-Income from Investments (Acct. No. 121)	\$30.00
Cr.-Held-to-Maturity Securities (Acct. No. 741)	\$30.00

Detailed Entries

Debit:

- a) Account No. 741 with par value of the U.S. Government Obligations.
- b) Account No. 741.2 with the amount of premium paid on securities purchased.
- c) Account No. 741.1 with appreciation in value of securities purchased at a discount.

Credit:

- a) Account No. 741.2 with periodic entries required to amortize a premium paid over the period from date of acquisition to maturity.
- b) Account No. 741.1 with the amount of discount on securities purchased.
- c) Account No. 741 with the par value of the securities sold.

742-TRADING SECURITIES

This account is used to record the purchase, sale, and adjustments of trading securities to fair value.

When securities are acquired, each credit union shall assess its intent and ability with regard to its securities holdings. It then must assign its debt and equity securities to the appropriate measurement category: *trading*, *held-to-maturity*, or *available-for-sale*. Not less frequently than the end of each dividend period, (i.e., monthly, quarterly, semi-annually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value measurement (*trading* and *available-for-sale*), shall be assessed.

Debt and equity securities that are bought and held principally for the purpose of selling them in the near term shall be classified as *trading securities* and reported at fair value through the income statement. Characteristic trading is active and frequent buying and selling, and *trading* securities are generally used with the objective of generating profits on short-term differences in price. Unrealized holding gains and losses for *trading* securities shall be included in the income statement. Dividend and interest income, including amortization of premium and discount, shall continue to be included in the income statement.

Illustrative Entries

-
- a) To record purchase of trading securities:

Dr.-Trading Securities	
(Acct. No. 742)	\$150,000
Cr.-Cash (Acct. No. 731)	\$150,000

- b) To record increase in fair value (opposite entry to record decrease in fair value):

Dr.-Trading Securities	
(Acct. No. 742)	\$5,000
Cr.-Trading Profits and Losses	
(Acct. No. 170)	\$5,000

- c) To record interest earned on trading securities:

Dr.-Cash (Acct. No. 731)	\$9,000
Cr.-Interest on Trading Securities	
(Acct. No. 124)	\$9,000

- d) To record the sale of the security at fair value:

Dr.-Cash (Acct. No. 731)	\$155,000
Cr.- Trading Securities	
(Acct. No. 742)	\$155,000

Detailed Transactions

Debit:

- a) With the purchase of trading securities.
- b) With the periodic write-up of trading securities to fair value.

Credit:

- a) With the sale of trading securities.
- b) With the periodic write-down of trading securities to fair value.

743-AVAILABLE-FOR-SALE

This account is used to record available-for-sale securities. Securities not classified as *trading* and not meeting the requirements of *held-to-maturity* shall be classified as securities *available-for-sale*.

When securities are acquired, each credit union shall assess its intent and ability with regard to its securities holdings. It then must assign its debt and equity securities to the appropriate measurement category: *trading*, *held-to-maturity*, or *available-for-sale*. Not less frequently than the end of each dividend period, (i.e., monthly, quarterly, semiannually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value measurement (*trading* and *available-for-sale*), shall be assessed.

Debt and equity securities not classified as either securities *trading* or *held-to-maturity* securities shall be classified as *securities available-for-sale* and reported at fair value through separate component of equity in the balance sheet, *Accumulated Unrealized Gains/Losses on Available-for-sale Securities*.

For credit union boards, in particular, fair value measurement gives them the information they need to oversee their credit unions. If securities in the available-for-sale portfolio drop in fair value below book value, a credit union board will have a ready indicator of this decline in the balance sheet separate equity account. These losses are real losses which are simply unrealized. Fair value measurement is a tool credit union management, credit union boards, and regulatory staff need to ensure the safety and soundness of credit unions, individually and corporately. Adjustments shall be made directly to the investment account. Unrealized holding gains and losses shall be excluded from the income statement and reported as a net amount in a separate component of equity on the balance sheet until realized. Dividend and interest income, including amortization of premium and discount, shall continue to be included in the income statement.

Mutual Funds. Mutual funds are considered to be marketable equity securities. The fair value of a mutual fund investment is readily determinable and published, and is the basis for current transactions. An investment in a mutual fund must be classified in either the *Available-for-Sale* or *Trading* categories. Adjustments shall be made directly to the investment account.

Illustrative Entries

- a) When the credit union invests in an available-for-sale security:

Dr. - Available-for-Sale Securities	
(Acct. No. 743)	\$10,000
Cr. - Cash (Acct. No. 731)	\$10,000

- b) When income on an available-for-sale security (say, a mutual fund) is credited by the fund manager to the account of the investing credit union:

Dr. - Available-for-Sale Securities	
(Acct. No. 743)	\$500.00
Cr. - Income from Investments	
(Acct. No. 121)	\$500.00

- c) When the credit union marks the investment to \$11,500 fair value:

Dr. - Available-for-Sale Securities	
(Acct. No. 743)	\$1,000.00
Cr. - Accumulated Unrealized Gains/ Losses on Available-for-Sale Securities (Acct. No. 945)	\$1,000.00

- d) When the credit union withdraws its investment in the mutual fund receiving \$10,300:

Dr. - Cash (Acct. No. 731)	\$10,300
Dr. - Accumulated Unrealized Gains/Losses on Available-for- Sale Securities (Acct. No. 945)	1,000
Dr. - Gain or Loss on Investments (Acct. No. 420)	200
Cr. - Available for Sale Securities (Acct. No. 743)	\$11,500

Detailed Transactions

Debit:

- a) With amounts of each security classified as available-for-sale.
- b) With amounts of write-ups to fair value.
- c) With income credited to the equity security by the fund manager, based on periodic advices income received from the trust.

Credit:

- a) With amounts of write-downs to fair value.
- b) With amounts of withdrawals from equity securities.

744-SHARES, DEPOSITS, CERTIFICATES OF CORPORATE CREDIT UNIONS

This account is used to record investments in shares or deposits of any central credit union in which such investments are specifically authorized by the board of directors of the federal credit union making the investment (Section 107(7)(G) of the Federal Credit Union Act). Deposits in corporate credit unions include certificates of deposits, deposits for share draft and credit card settlement accounts, etc. Refer to Section 6000 for illustrative entries and detailed transactions.

745-SHARES, DEPOSITS, CERTIFICATES OF OTHER CREDIT UNIONS

This account is used to record investments in shares, share certificates, or share deposits of federally insured credit unions (Section 107(7)(H) of the Federal Credit Union Act) other than corporate credit unions.

Loans to other credit unions should be recorded in Account No. 747 instead of this account.

Entries in the Journal and Cash Record

This account is debited in the “Miscellaneous Debit” column with the amount of such investments. It is also debited in the “Miscellaneous-Debit” column with the dividends on shares or interest on deposits which are retained in the investment account.

This account is credited in the “Miscellaneous Credit” column with the amount of withdrawals of shares, deposits or certificates in credit unions, including the withdrawal of dividends or interest previously debited to this investment account.

Posting to the General Ledger

Each entry involving this account is posted individually to the General Ledger from the “Miscellaneous” columns of the Journal and Cash Record.

The name and address of the other credit union, the number of the share or deposit account, and any other data necessary to identify the transactions affecting the investment account should be written in the “Explanatory Remarks” column of the General Ledger.

Subsidiy of General Ledger Account

If the credit union has investments in two or more credit unions, it is recommended that subsidiary records be maintained to clearly identify transactions with each credit union (see Section 5195.2.7). If subsidiary records are maintained, it should not be necessary to complete the “Explanatory Remarks” column of the General Ledger account.

Illustrative Entries

- a) When the credit union invests in shares or deposits (including deposits evidenced by certificates of deposit) of another credit union:

Dr.-Shares, Deposits and Certificates of Other Credit Unions (Acct. No. 745)	\$2,000.00
Cr.-Cash (Acct. No. 731)	\$2,000.00

- b) When dividends on shares or interest on deposits are credited by other credit union to the investing credit union's account:

Dr.-Shares, Deposits and Certificates of Other Credit Unions (Acct. No. 745)	\$100.00
Cr.-Income from Shares/Deposits/ Certificates of Other Credit Unions (Acct. No. 127)	\$100.00

- c) When the credit union withdraws its investment in the other credit union:

Dr.-Cash (Acct. No. 731)	\$2,100.00
Cr.-Shares, Deposits and Certificate of Other Credit Unions (Acct. No. 745)	\$2,100.00

- d) When the credit union receives a check from the other credit union in payment of dividends or interest:

Dr.-Cash (Acct. No. 731)	\$200.00
Cr.-Income from Shares/Deposits/ Certificates of Other Credit Unions (Acct. No. 127)	\$200.00

Detailed Transactions

Debit:

- a) With the principal amounts of investments in shares, share certificates or share deposits in other credit unions (including purchases of certificates of deposit or promissory notes in other credit unions).
- b) With interest or dividends credited to the investment account by other credit unions.

Credit:

- a) With the principal amounts of withdrawals or redemptions of investments in shares, share certificates or share deposits (including Certificate of deposit or promissory notes) in other credit unions.

ACCRUAL BASIS OF ACCOUNTING

Credit unions using the accrual basis of accounting should record income earned on a monthly basis or, alternatively, at least at the end of each dividend period. The accrued income should be recorded as a debit to "Accrued Income on Investments", (Account No. 782) and a credit to "Income from Shares/Deposits/Certificates of Other Credit Unions", (Account No. 127). When the credit union receives a check for the interest or statement showing interest credited to the account, the actual interest income should then be recorded as a debit to "Cash", (Account No. 731), and a credit to Account No. 782, "Accrued Income on Investment."

746-OTHER SHARES, DEPOSITS, CERTIFICATES

746.1 -COMMERCIAL BANK DEPOSITS

746.2-SAVINGS & LOAN AND MUTUAL SAVINGS BANK DEPOSITS

These accounts are used to record investments in shares, deposits and certificates of financial institutions other than credit unions. Sections 107(D) and 107(8) of the Federal Credit Union Act authorize such investments including:

- a) Shares or accounts of savings and loan associations or mutual savings banks insured by the Federal Savings and Loan Insurance Corporation (FSLIC) or the Federal Deposit Insurance Corporation (FDIC);
- b) Deposits in national banks and in state banks, trust companies, and mutual savings banks operating in accordance with the laws of the state in which the federal credit union does business, or in banks or institutions the accounts of which are insured by the FSLIC or FDIC.

Subsidiaries of the General Ledger Accounts

If the credit union has two or more investments in other shares, deposits or certificates, it is recommended that subsidiary records be maintained to clearly identify each investment transaction. (See Section 5195.2.7). If subsidiary records are maintained, it should not be necessary to complete the "Explanatory Remarks" column of the General Ledger account.

Illustrative Entries

-
- a) When investments are made in shares or deposits, other than with another credit union:

Dr.-Commercial Bank Deposits	
(Acct. No. 746.1)	\$50,000

or

Dr.-Savings & Loan and Mutual
Savings Bank Deposits(Acct. No. 746.2) \$50,000
Cr.-Cash (Acct. No. 731) \$50,000

b) When investments are withdrawn or redeemed:

Dr.-Cash (Acct. No. 731) \$1,000.00
Cr.-Other Shares, Deposits and
Certificates (Acct. No. 746) \$1,000.00

c) When income earned on such deposits are automatically reinvested:

Dr.-Commercial Bank Deposits
(Acct. No. 746.1) \$1,000

or

Dr.-Savings & Loan and Mutual
Savings Bank Deposits
(Acct. No. 746.2) \$1,000
Cr.-Income from Shares/Deposits/
Certificates of Other Credit Unions
(Acct. No. 127) \$1,000

d) To record the withdrawal of shares, deposits or certificates:

Dr.-Cash (Acct. No. 731) \$25,000
Cr.-Commercial Bank Deposits
(Acct. No. 746.1) \$25,000

or

Cr.-Savings & Loan and Mutual
Savings Bank Deposits
(Acct. No. 746.2) \$25,000

Additional transactions are illustrated in Section 6000 for credit unions that establish settlement accounts for credit card transactions.

Detailed Transactions

Debit:

- a) With deposits and investments in commercial banks, savings & loan associations and mutual savings banks.
- b) With income earned on deposits and investments and reinvested in commercial banks, savings & loan associations, or mutual savings banks. (NOTE: This entry assumes that the income is added to the deposit or investment rather than received by separate check.)

Credit:

- a) With withdrawals or redemptions of deposits and investments in commercial banks, savings & loan associations, and mutual savings banks.

ACCRUAL BASIS OF ACCOUNTING

Accrual accounting entries for this account are the same as those discussed in “Shares, Deposits and Certificates of Other Credit Unions”, (Account No. 745).

746.3-OTHER INVESTMENTS

The account is used to record other investments such as Federal funds, also known as Fed funds, are investments in obligations of financial institutions listed in Section 107(8) of the Federal Credit Union Act. The funds are unsecured and are generally loaned overnight (or over a weekend) at the market rate for Federal funds transactions. Federal fund investments generally represent very liquid funds, and the credit union is able to require repayment at anytime.

Illustrative Entries

-
- a) To record investments in Fed funds:

Dr.-Other Investments	
(Acct. No. 746.3)	\$80,000
Cr.-Cash (Acct. No. 731)	\$80,000

- b) To record the sale of Fed funds:

Dr.-Cash (Acct. No. 731)	\$40,000
Cr.-Other Investments	
(Acct. No. 746.3)	\$40,000

Detailed Transactions

Debit:

- a) With investments in Fed funds.

Credit:

- a) With sale of Fed fund investments.

747-LOANS TO OTHER CREDIT UNIONS

This account should be used to record outstanding principal balances of all loans made to other credit unions in accordance with Section 107(7)(c) of the Federal Credit Union Act and Part 703 of NCUA's Rules and Regulations. The maximum investment in loans to other credit unions shall not exceed 25% of the investing credit union's paid in and unimpaired capital and surplus. A properly executed note of the borrowing credit union should be obtained at the time that the loan is made.

Entries in Journal and Cash Record

Debit this account in the "Miscellaneous-Debit" column with the amount of new and renewal loans made to other credit unions. Credit this account in the "Miscellaneous-Credit" column with the amounts received in part or in full payment of loans made to other credit unions; also, with the unpaid balance of such loans upon renewal.

Posting to General Ledger

Each entry involving this account is posted individually to the General Ledger from the "Miscellaneous" columns of the Journal and Cash Record.

The names and addresses of credit unions to which loans are made should be clearly shown in the "Explanatory Remarks" column of the General Ledger account. It is also desirable to show the terms of the loan, such as rate of interest and maturity date.

Subsidiary of General Ledger Account

When loans are made to two or more credit unions, it is recommended that subsidiary records be maintained to clearly identify transactions with each credit union. If subsidiary records are maintained, it should not be necessary to complete the "Explanatory Remarks" column of the General Ledger account.

Illustrative Entries

-
- a) When a loan is made to another credit union, and a check is issued:

Dr.-Loans to Other Credit Unions

(Acct. No. 747) \$1,000.00

Cr.-Cash (Acct. No. 731) \$1,000.00

b) When the above loan to another credit union is repaid with interest:

Dr.-Cash (Acct. No. 731)	\$1,010.00
Cr.-Loans to Other Credit Unions	
(Acct. No. 747)	\$1,000.00
Cr.-Income from Other Investments	
(Acct. No. 129)	10.00

c) When a loan to another credit union is partially paid and renewed at maturity of the loan:

Dr.-Cash (Acct. No. 731)	\$410.00
Dr.-Loans to Other Credit Unions	
(Acct. No. 747)	600.00
Cr.-Loans to Other Credit Unions	
(Acct. No. 747)	\$1,000.00
Cr.-Income from Other Investments	
(Acct. No. 129)	10.00

Detailed Transactions

Debit:

a) With principal amounts of loans made to other credit unions.

Credit:

a) With amounts of principal repayments received on loans to other credit unions.

ACCRUAL BASIS OF ACCOUNTING

Credit unions using the accrual basis should record income earned from these investments on a monthly basis, or alternatively, at least quarterly or at the end of each regular share dividend account period. The accrued income should be recorded by a debit to "Accrued Income from Investments", (Account No. 782). The entry to record interest received should consist of a debit to "Cash", (Account No. 731) and as a credit to "Accrued Income from Investments", (Account No. 782).

748-INVESTMENTS IN CREDIT UNION SERVICE ORGANIZATIONS

748.2-LOANS TO CREDIT UNION SERVICE ORGANIZATIONS

These accounts are used to record investments and loans in credit union service organizations (CUSOS) in accordance with Section 107(7)(1) and 107(5)(D), respectively, of the Federal Credit Union Act and Part 701.27 of the NCUA Rules and Regulations. Additional guidance and accounting procedures for "Investments in CUSOS", (Account No. 748) are found in Section 6000 of this manual.

A federal credit union is authorized to lend 1 % of its paid-in and unimpaired capital and surplus (shares and undivided earnings) to CUSOs. The amount of loans to a CUSO is independent of its investment in the CUSO. The CUSO must be structured as a corporation or limited partnership and provide services and activities identified in Part 701.27 of NCUA Rules and Regulations.

Illustrative Entries

- a) To record a loan made to a CUSO:

Dr.-Loans to CUSOs	
(Acct. No. 748.2)	\$20,000
Cr.-Cash (Acct. No. 731)	\$20,000

- b) To record a partial repayment of the loan to a CUSO with interest:

Dr.-Cash (Acct. No. 731)	\$1,100
Cr.-Loans to CUSOs	
(Acct. No. 748.2)	\$1,000
Cr.-Income from Investments	
in CUSOs	\$100

751 -INVESTMENT IN THE CENTRAL LIQUIDITY FACILITY

751.1-INVESTMENT IN CLF-MEMBERSHIP STOCK

751.2-INVESTMENT IN CLF-LIQUIDITY CLEARING

These accounts are used to record capital stock purchased in the Central Liquidity Facility (CLF) by regular or agent members. More information on CLF operations and accounting is contained in Section 6000.

One-half of the required subscription amount is paid to the facility at the time the membership application is filed. The other half of the required subscription amount must be held “on-call” and must be invested in prescribed liquid assets.

Dividends are paid on the capital stock of the facility at such times and rates as are determined by the National Credit Union Administration Board and are paid by crediting the share accounts of members.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the “Miscellaneous” column of the Journal and Cash Record.

Illustrative Entries

Dr.-Investments in the CLF - Membership Stock (Acct. No. 751.1)	\$1,595.00	
Cr.-Cash (Acct. No. 731)		\$1,595.00

- b) To record additional stock in excess of minimum requirements purchased as an investment:

Dr.-Investments in the CLF - Liquidity Clearing (Acct. No. 751.2)	\$500.00	
Cr.-Cash (Acct. No. 731)		\$500.00

- c) To record dividends credited to the account:

Dr.-Investments in the CLF - Liquidity Clearing (Acct. No. 751.2)	\$50.00	
Cr.-Income from Other Investments (Acct. No. 129)		\$50.00

Detailed Transactions

Debit:

- a) With required amounts of subscription (Account No. 751.1) and amounts in excess of requirements purchased as an investment (Account No. 751.2).
- b) With dividends credited to Account No. 751.2.

Credit:

- a) With withdrawals of funds which are in excess of the required subscription amount.

752-INVESTMENT IN NCUA SHARE INSURANCE CAPITALIZATION FUND

This account is used to record deposits into and redistributions from the National Credit Union Share Insurance Fund (NCUSIF). The amount deposited or redistributed is based on the insured shares of a credit union on June 30. NCUSIF deposits normally equal 1% of a credit union's insured shares. NCUA

Forms 1304 and 1305 are provided to federally insured, state-chartered credit unions and federally chartered credit unions respectively each December. These forms itemize amounts due to the NCUSIF on or before the following January 31. NCUA Form 1305 also includes the computation for the annual operating fee. The amount should be classified as a current investment.

Illustrative Entries

- a) To record payment of the capitalization deposit adjustment or initial deposit:

Dr.-Investments in NCUA Share Insurance Capitalization Fund (Acct. No. 752)	\$1,595.67
Cr.-Cash (Acct. No. 731)	\$1,595.67

- b) To record a redistribution of the NCUSIF equity, i.e., when a credit union's shares decrease from the preceding insurance year:

Dr.-Cash (Acct. No. 731)	\$75.00
Cr.-Investment in NCUA Share Insurance Capitalization Fund (Acct. No. 752)	\$75.00

Detailed Transactions

Debit:

- a) With the amount of payments to the National Credit Union Share Insurance Fund.

Credit:

- a) With the amount of a redistribution of NCUSIF equity.

Reference: Rules and Regulations 741.8 and NCUA Form 1305.

753-INVESTMENT IN BRANCH

This account should be used when the main office furnishes cash or pays for purchases and services for the credit union's branch. It is also credited for the cash or assets that are received by the main office from a branch office. Section 6000 includes additional information and Illustrative Journal and Cash Record entries on the use of this account.

755-PURCHASED ACCRUED INTEREST RECEIVABLE

This account is used to record the purchase of accrued interest on loans and investments. The purchased accrued interest accumulates from the date of the last interest payment on the loan or investment to the date of the purchase of the loan or investment. The accrued interest receivable should be recorded when the credit union records the purchase of the loan or investment. Please refer to Section 6000 “Loans Purchased” for illustrative entries.

760-PREPAID EXPENSES AND DEFERRED CHARGES

762-DEFERRED CHARGES-COMMITMENT FEES PAID IN CONNECTION WITH THE ACQUISITION OF BORROWED FUNDS

Commitment fees paid in connection with the acquisition of borrowed funds should be deferred. The treatment of the fees paid depends on the type of contract entered into and whether or not the commitment is exercised:

- If the commitment expires unexercised, the commitment fees paid should be expensed in Account No. 371, “Unexercised Commitment Fees.”
- If the borrowed funds will be repaid as a term loan, the commitment fees should be transferred to Account No. 812.1, “Notes Payable-Commitment Fees” and amortized as interest on borrowed funds according to the interest method. See Account No. 703.1 for a detailed discussion of the interest method.
- If the credit union borrows funds under a revolving line of credit, the commitment fees should be amortized based on the straightline method over the life of the contract. Account No. 372, “Commitment Fees” should be used to record this expense.
- If the credit union pays all borrowings under a revolving line of credit and cannot reborrow under the contract, any unamortized fees should be expensed to Account No. 372, “Commitment Fees.”
- If the revolving line of credit contains an option to convert to a term loan, the fees should be amortized based on the straightline method over the combined life of the line of credit and term loan. If the option is not exercised and all borrowings are extinguished, any unamortized fees should be expensed.
- If the option to convert to a term loan is exercised, any unamortized fees would be transferred to Account No. 812.1, “Notes Payable-Commitment Fees” and amortized as interest on borrowed funds using the interest method.

- a) To defer commitment fees paid in connection with borrowed funds:

Dr.-Deferred Charges-Commitment Fees Paid in Connection with the Acquisition of Borrowed Funds (Acct. No. 762)	\$2,200.00
Cr.-Cash (Acct. No. 731)	\$2,200.00

- b) If the commitment expires unexercised:

Dr.-Unexercised Commitment Fees (Acct. No. 371)	\$2,200.00
Cr.-Deferred Charges-Commit- ment Fees Paid in Connection with the Acquisition of Borrowed Funds (Acct. No. 762)	\$2,200.00

- c) If the borrowed funds will be repaid as a term loan, related commitment fees should be periodically expenses as follows::

Dr.-Commitment Fees on Borrowed Money (Acct. No. 372)	\$200.00
Cr.-Deferred Charges-Commit- ment Fees Paid in Connection with the Acquisition of Borrowed Funds (Acct. No. 762)	\$200.00

- d) If the credit union borrows funds under a revolving line of credit and properly amortizes commitment fees using the straight-line method over the life of the contract:

Dr.-Commitment Fees on Borrowed Money (Acct. No. 372)	\$220.00
Cr.-Deferred Charges-Commit- ment Fees Paid in Connection with the Acquisition of Borrowed Funds (Acct. No. 762)	\$220.00

- e) If the credit union pays all borrowings under a revolving line of credit and cannot reborrow under the contract, all related unamortized commitment fees should be expensed:

Dr.-Commitment Fees on Borrowed

Money (Acct. No. 372) \$2,000.00

Cr.-Deferred Charges-Commit-
ment Fees Paid in Connection

with the Acquisition of

Borrowed Funds (Acct. No. 762) \$2,000.00

- f) If the revolving line of credit contains an option to convert to a term loan, the fees should be amortized over the combined life of the line of credit and the term loan as in d. above. If the option is not exercised, any unamortized fees should be expensed as in e. above:
- g) If the option to convert to a term loan is exercised, deferred fees should be expensed as in c. above.

Detailed Transactions

Debit:

- a) With the amount of deferred commitment fees paid.

Credit:

- a) With the amount of the periodic amortization of commitment fees or write-off of unamortized commitment fees.

763-DEFERRED CHARGES-COMMITMENT FEES PAID ON LOANS TO BE PURCHASED

Fees paid prior to purchase in connection with the purchase of a loan or group of loans should be deferred. Upon the purchase, this account should be credited. This entry is necessary to determine the premium or discount on the purchase.

Illustrative Entries

Assume that the credit union is buying \$100,00 in loans for \$102,000. In addition, fees of \$10,000 are paid by the credit union prior to actual purchase.

- a) To record the fees paid prior to actual purchase of the loans:

Dr.-Deferred Charges-Fees

Paid on Loans to be Purchased

(Acct. No. 763) \$10,000.00

Cr.-Cash (Acct. No. 731) \$10,000.0

b) To record the credit union's purchase of loans.:

Dr.-Loans Purchased	
(Acct. No. 714)	\$10,000.00
Dr.-Premium on Loans Purchased	
(Acct. No. 714.1)	\$12,000.00
Cr.-Deferred Charges-Fees	
Paid on Loans to be Purchased	
(Acct. No. 763)	\$10,000.00
Cr.-Cash (Acct. No. 731)	102,000.00

Detailed Transactions

Debit:

- a) With the amount of fees paid to the seller by the credit union prior to actual purchase of the loan(s).

Credit:

- a) With the amount of the fees paid upon actual purchase of the loan(s) to facilitate the calculation of premiums or discounts on the purchase.

764-PREPAID RENT

This account is used to record the prepayment of rent for space occupied by the credit union or for the rental of equipment. The account would also be used to record prepaid rent resulting from below market leasing costs under a sale-and-leaseback arrangement. For example, if the annual leaseback costs per the contract were \$225,000, but the annual market rental for the geographic area was \$450,000, \$225,000 would be recorded as prepaid rent and would receive periodic amortization.

765-PREPAID SHARE INSURANCE

This account represents the value of the unexpired portion of the share insurance premiums which should be charged to expense at a subsequent date.

Under Section 202(c) of the Federal Credit Union Act each insured credit union shall pay into the insurance fund, a premium charge equal to one-twelfth of one per centum of the total amount of the insured shares in such credit union at the close of the preceding insurance year. Normally these premiums are payable in January each year for the insurance coverage for the entire calendar year. Often times, such share insurance premiums are waived by the NCUA Board.

Because of the relative size of this expense amount, credit unions may find it advantageous to prorate the cost over the period to which it applies. Such charges may be made monthly, quarterly, semiannually or annually at the option of credit unions using the Modified Cash basis of accounting. For credit unions using the accrual basis, the charges should be made monthly or, alternatively, at least quarterly or at the end of each regular share account dividend period.

Entries in the Journal and Cash Record

This account should be debited in the “Miscellaneous-Debit” column for the portion of applicable share insurance premiums which is to be amortized over the year and, therefore, not yet charged to expense. It should be credited in the “Miscellaneous Credit” column for the portion of the premium that is charged to expense.

Posting to the General Ledger

All entries in this account should be posted from the “Miscellaneous” columns of the Journal and Cash Record. Each entry should be explained in the “Explanatory Remarks” column of the General Ledger.

Illustrative Entries

-
- a) When the share insurance premium is paid and the current month’s premium is charged to expense:

Dr.-Prepaid Share Insurance	
(Acct. No. 765)	\$220.00
Dr.-Share Insurance	
(Acct. No. 311)	20.00
Cr.-Cash (Acct. No. 731)	\$240.00

- b) An appropriate portion of premium is periodically charged to expense during the year:

Dr.-Share Insurance	
(Acct. No. 311)	\$20.00
Cr.-Prepaid Share Insurance	
(Acct. No. 765)	\$20.00

Detailed Transactions

Debit:

- a) With amount of share insurance premiums applicable to future periods.

Credit:

- a) With pro rata amounts of share insurance premiums charged to expense over the period to which the prepaid expense applies.

766-OTHER PREPAID INSURANCE

This account represents the value of the unexpired or prepaid portion of the surety bond and other insurance premiums, except share insurance.

Because of the savings involved, it may be advantageous to the credit union to purchase insurance coverage on more than a 1-year basis and charge the unexpired or prepaid portion of the premium to this account. Then periodic charges can be made to expense for the period to which the insurance is applicable. Such charges may be made monthly, quarterly, semiannually or annually.

A credit union which closes its books more than once a year and which pays substantial annual premiums for insurance, such as Chattel Lien Nonfiling Insurance, may also use this account to allocate each month's costs as an expense item.

Borrowers' insurance premiums, life-savings insurance premiums and premiums advanced for members in connection with insurance on chattels which have been accepted as security for loans (see "Insurance Premiums Receivable", (Account No. 724)) should not be charged to this account. Likewise, dividends received on borrowers' and life-savings insurance should not be recorded here.

Illustrative Entries

-
- a) A 3-year surety bond premium is paid; the current year's premium is charged to expense:

Dr.-Other Prepaid Insurance (Acct. No. 766)	\$200.00
Dr.-Insurance (Acct. No. 265)	100.00
Cr.-Cash (Acct. No. 731)	\$300.00

- b) Appropriate portion of premium is charged to expense during the second year:

Dr.-Insurance (Acct. No. 265)	\$100.00
Cr.-Other Prepaid Insurance (Acct. No. 766)	\$100.00

Detailed Transactions

Debit:

- a) With amount of other insurance premiums applicable to future periods.

Credit:

- a) With pro rata amounts of insurance premiums charged to cost over the period to which the prepaid expense applies.

767-DEFERRED PENSION COST

This account consists of unamortized past service pension costs that are amortized for a period of not less than 10 nor more than 40 years. Reference should be made to Section 6000 for illustrated accounting entries.

768-UNAMORTIZED ORGANIZATION COSTS

The purpose of this account is to enable new credit unions to charge the cost of organization and original bookkeeping supplies to the expenses of more than one accounting period.

Use of Account

The "Unamortized Organization Costs" account may be debited with the costs of the credit union's organization and the cost of the original order for bookkeeping supplies. The cost should be debited to this account in every case except when they were donated to the credit union. When the supplies are donated, the cost is debited directly to Account No. 370, "Miscellaneous Operating Expense" and the donation credited to Account No. 440, "Other Nonoperating Income (Expenses)."

This account is an asset account and is shown as such on the Statement of Financial Condition of the credit union. At designated times to be determined by the board of directors, which may be monthly, quarterly, semiannually, or annually, charges to expense to reduce the amount set up as an asset are made as described below. In any event, the entire amount should be written off not later than the end of the second year following the year in which the credit union is chartered. It is recommended that the entire amount be written off as soon as it can be absorbed without appreciably affecting the earnings of the credit union.

Entries of Journal and Cash Record

Debit this account in the "Miscellaneous-Debit" column with the cost of the original order for bookkeeping supplies. Whenever it is decided to write off an amount, debit "Miscellaneous Operating Expenses", (Account No. 370) in the "Operating Expenses (Control)" column and credit this account in the "miscellaneous-Credit" column.

Posting to General Ledger

Entries to this account are posted individually from the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

-
- a) When the invoice is received for the original order for bookkeeping supplies, but the check is not issued in payment until a later date:

Dr.-Unamortized Organization Costs	
(Acct. No. 768)	\$60.00
Cr.-Other Accounts Payable	
(Acct. No. 801)	\$60.00

- b) When any part of the entire amount of the Unamortized Organization Cost is written off::

Dr. -Miscellaneous Operating Expenses

Expenses (Acct. No. 370) \$12.00

Cr. -Unamortized Organization

Costs (Acct. No. 768) \$12.00

Detailed Transactions

Debit:

- a) With the costs of organization and original bookkeeping supplies purchased at the time the credit union is organized.

Credit:

- a) With the portion of the balance of this account when written off to expense.

769-OTHER PREPAID EXPENSES AND DEFERRED CHARGES

This account reflects the unamortized balance of prepaid expenses and deferred charges, except those recorded in other accounts in the 760 series, which are to be allocated to subsequent operations.

This account is for use by credit unions following the modified cash basis of accounting as well as those following the accrual basis. Each credit union should determine the particular expense charges to be recorded in this account in order to spread the cost over the periods to be benefited. Examples of items which may be recorded as prepaid expenses or deferred charges include stationery and supplies, association fees, advances for accounting services, and the NCUA operating fee.

Subsidiary ledgers should be maintained for each prepaid and deferred expense reflecting the initial charge to the account, date, complete description of the expense, periodic amortization credits and balance remaining on each item. These subsidiary ledgers should be balanced to the General Ledger control account each month.

Entries in the Journal and Cash Record

Entries to establish prepaid expenses and deferred charges in this account should be recorded in the "Miscellaneous-Debit" column. Entries to write off prepaid expenses and deferred charges should be credited to this account in the "Miscellaneous Credit" column; the offsetting debit to expense should be posted to the "Operating Expenses (Control)" column, and numerical identification of the detailed expense account should be shown in the column headed "Account No."

Illustrative Entries

- a) To establish a prepaid expense or deferred charge for allocation to future period costs; e.g., if stationery and supplies are purchased which will last for 3 years:

Dr.-Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	\$360.00
Cr.-Cash (Acct. No. 731)	\$360.00

- b) To prorate the expense applicable to each quarter year:

Dr.-Stationery and Supplies (Acct. No. 264)	\$30.00
Cr.-Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	\$30.00

NOTE: The cost recorded as other prepaid or deferred expenses may be prorated monthly, quarterly, or at the end of a regular share account dividend period.

Detailed Transactions

Debit:

- a) With charges paid or incurred which are to be allocated to future periods.

Credit:

- a) With the write-off of prepaid expenses and deferred charges to expense over the periods to which they apply.

770-FIXED ASSETS

771-LAND

This account reflects the costs to the credit union of land owned by it, except that any land acquired in connection with the liquidation of loans should be recorded in "Assets Acquired in Liquidation of Loans", (Account No. 798). Under Section 107(4) of the Federal Credit Union Act, credit unions are authorized to purchase, hold and dispose of property necessary or incidental to their operations.

When the credit union purchases land, the cost should be recorded in this account. Cost should include the purchase price plus any incidental costs incurred in order to obtain title to the land and place it in condition for use. In combination purchases where land and buildings are acquired in a single transaction, the cost of the land should be recorded back on an estimate of its value at the time of acquisition and the balance of the purchase cost should be recorded in "Building", (Account No. 772).

Upon disposition of the land and building, the balances for the property recorded in this account and in "Allowance for Depreciation of Building", (Account No. 773), should be cleared, and any gain or loss credited or debited to "Gain (Loss) on Disposition of Assets", (Account No. 430).

Illustrative Entries

- a) When land is purchased, record the entry for the cost incurred as follows:

Dr.-Land (Acct. No. 771)	\$15,000
Cr.-Cash (Acct. No. 731)	\$15,000

NOTE: If a combined purchase of both land and building is made, the amount charged to this account should be based on an estimate of the portion of the overall cost properly attributable to the value of the land based on fair market value.

- b) When land carried at \$15,000 is disposed of for an \$18,000 sales price:

Dr.-Cash (Acct. No. 731)	\$18,000
Cr.-Land (Acct. No. 771)	\$15,000
Cr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)	3,000

- c) If a combined sale of land and building is made for \$65,000, and the land carrying value is \$15,000, and the building carrying value is \$60,000, with accumulated depreciation of building of \$20,000, the entry would be:

Dr.-Cash (Acct. No. 731)	\$65,000
Dr.-Allowance for Depreciation of Building (Acct. No. 773)	20,000
Cr.-Land (Acct. No. 771)	\$15,000
Cr.-Building (Acct. No. 772)	60,000
Cr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)	10,000

Detailed Transactions

Debit:

- a) With purchase cost of land and other charges related to acquisition. (In combined purchase of land and building, debit this account with the estimated fair market value of the land.)

Credit:

- a) With book value of land at time of disposition.

772-BUILDING

A federal credit union may purchase or construct a building for its use, provided the building is necessary and incidental to its operation and the purchase is in compliance with Section 701.26 of NCUA Rules and Regulations. Account No. 772 should reflect the cost of the building plus the cost of any additions and improvements of a permanent nature which increase the value of the building.

Depreciation

The following are acceptable useful lives for new buildings based on type of construction:

<u>Type of Construction</u>	<u>Useful Life</u>
Concrete & Steel	30-55 years
Masonry	25-45 years
Wood Frame	20-40 years
Portable Units	15-30 years

In selecting a specific useful life within the above ranges, the board of directors should consider such other factors as anticipated use, climatic conditions, economic conditions within the surrounding area, possible future uses of the building site and the surrounding area, and present and future accessibility of the site for the membership. The credit union's files should contain written documentation and support for the period of depreciable life selected, with attention given to all of these factors.

The remaining useful life of a used building should be a reasonable estimate based on the age and condition of the building at the time of acquisition by the credit union.

Depreciation charges as a minimum should be recorded at least quarterly or at the end of the regular share account dividend period if it is longer than quarterly. Where the dividend period is more frequent than monthly, the depreciation charge may be recorded on a monthly basis. In determining the periodic depreciation charge, the board may select any of the generally accepted methods of depreciation, such as straightline, sum-of-the-years digits, or declining balance methods. The depreciation should be credited to Account No. 773, "Allowance for Depreciation of Building." The balance in Account No. 773 should be deducted from the balance in Account No. 772 and the net reflected as the Building account in the monthly Statement of Financial Condition (Form FCU 109A).

Expenses

Expenses, including depreciation, incurred in maintaining the building should be recorded in the appropriate expense classification under "Office Occupancy Expenses", (Account No. 250). Any incidental income received from the building should be credited to "Other Nonoperating Income (Expense)", (Account No. 440).

Records

All required supporting papers should be kept in the permanent files, including such items as the deed, abstract of title or title insurance policy, and settlement papers. The board of directors must determine that all necessary insurance is purchased, including at least public liability and fire insurance, and should periodically ascertain the need for additional coverage.

Sale of Land and Building

Ordinarily, when a credit union sells its office building, it does so for cash. If, however, as a condition of the sale, the credit union accepts a note for part of the purchase price, the note should be accounted for in "Notes and Contracts Receivable", (Account No. 799), as discussed in the description of that account.

Illustrative Entries

-
- a) When a building is acquired, the purchase price (excluding value of land purchased and recorded in Account No. 771) plus incidental expenses related to the acquisition, and any expenditures made immediately following acquisition to place the building in condition for use by the credit union should be recorded:

Dr.-Building (Acct. No. 772)	\$350,000	
Cr.-Cash (Acct. No. 731)		\$350,000

NOTE: If the acquisition involves borrowing by the credit union secured by a mortgage on the building, the credit should be to "Mortgage Notes Payable", (Account No. 811) instead of to "Cash", (Account No. 731).

Detailed Transactions

Debit:

- a) With purchase cost of building plus amount of related costs incidental to acquisition of title.
- b) With expenditures made immediately following acquisition to place the building in condition for use by the credit union.
- c) With the cost of improvements to the building.

Credit:

- a) With the current carrying value of the building at the time of disposition.

773-ALLOWANCE FOR DEPRECIATION OF BUILDING

This account represents the amount provided for depreciation or obsolescence of a building owned by the credit union, exclusive of buildings carried as “Assets Acquired in Liquidation of Loans”, (Account No. 798).

The carrying value of the building less estimated eventual salvage value should be depreciated by periodic charges to operating expense over the building’s estimated life. The depreciation computation may be made monthly, quarterly, semiannually or annually, but as a minimum, should be made for each regular share account dividend period.

Illustrative Entries

-
- a) To record quarterly straight-line depreciation: building carrying value \$2,000,000; estimated life is 40 years; and anticipated salvage \$200,000. Quarterly depreciation is calculated as \$2,000,000 less \$200,000 divided by 160, representing the number of quarterly periods, equaling periodic depreciation costs of \$11,250:

Dr. -Depreciation of Buildings	
(Acct. No. 254)	\$11,250
Cr. -Allowance for Depreciation	
of Buildings (Acct. No. 773)	\$11,250

- b) To record sale of building and land see illustrative c. under the description of Account No. 771, “Land.”
-

774-FURNITURE AND EQUIPMENT

This account represents the cost of furniture and equipment. It is recommended that a depreciation policy be established by the board of directors which will reduce the carrying value of these assets in accordance with their expected useful life. Charges for depreciation may be made monthly, quarterly, semiannually, or annually, at the option of the credit union, but as a minimum, should be recorded at the end of each regular share account dividend period. The depreciation may be recorded under either the unit or the composite-life basis of depreciation as described below:

- a) Under the unit basis of depreciation, each depreciable fixed asset is depreciated separately based on its estimated useful life less estimated salvage value. When an asset is disposed of, the cost should be eliminated from this account and the accumulated depreciation to date should be cleared (by debit) to “Allowance for Depreciation of Furniture and Equipment”, (Account No. 775). The difference between the net carrying value of the asset (the cost less accumulated depreciation to date) and any proceeds of sale received for the asset will represent net gain or

loss and should be recorded in “Gain (Loss) on Disposition of Assets”, (Account No. 430). As long as an asset has a salvage or useful value, the depreciation credit to Account No. 775 may not result in the asset being carried on the credit union’s books at less than \$1.

- b) Under the Composite Method of depreciation, groups of similar fixed assets will be depreciated over their estimated average useful lives by periodic charges to expense and credits to “Allowance for Depreciation of Furniture and Equipment”, (Account No. 775). When individual items of furniture and equipment are disposed of, this account should be credited for the cost of the assets retired and the same amount less proceeds received (if any) should be charged to the “Allowance for Depreciation of Furniture and Equipment”, (Account No. 775). No gain or loss should be recognized in the accounts since the composite rates used contemplate that items in the groups will be retired both before and after the expiration of the estimated average useful life.

An exception may be made and gain or loss recognized under the procedure described in the foregoing paragraph when retirements are abnormal and are material in amount, since the composite rates do not anticipate such retirements. Also, under this depreciation method, the accumulated depreciation allowance account should never be permitted to exceed the fixed asset amount.

To simplify recordkeeping, furniture and equipment items costing less than a fixed amount (e.g., \$200) that is established by the board of directors should be expensed by a debit to “Other Office Operations Expenses”, (Account No. 269) at the time of purchase.

Entries in the Journal and Cash Record

This account is debited in the “Miscellaneous-Debit” column with the cost of furniture and equipment purchased by the credit union. This account is credited in the “Miscellaneous-Credit” column with the cost of any items disposed of by sale or otherwise.

Posting to the General Ledger

Entries in this account are posted individually from the “Miscellaneous” columns of the Journal and Cash Record. Items recorded in this account should be concisely identified in the “Explanatory Remarks” column. A memorandum notation should be made in the “Explanatory Remarks” column of any item disposed of so this account will provide a record of all furniture and equipment on hand.

Carrying Value of Furniture and Equipment Acquired by Trade

When furniture and equipment are traded for a new item(s), the basis of the newly acquired asset is the carrying value of the asset traded plus the amount of cash paid. If, as a result of this accounting method, the carrying value of the new asset exceeds its reasonable market value, the board of directors should authorize an immediate depreciation charge against the new asset to reduce the carrying value to the assets’ market value.

- a) When furniture and equipment are acquired:

Dr.-Furniture and Equipment (Acct. No. 774)	\$500.00
Cr.-Cash (Acct. No. 731)	\$500.00

- b) When furniture and equipment are depreciated:

Dr.-Depreciation of Furniture and Equipment (Acct. No. 266)	\$25.00
Cr.-Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	\$25.00

- c) When furniture and equipment is disposed of by sale, where unit basis of depreciation is followed. Assume a typewriter sold for \$200; original cost of \$1,800; less accumulated depreciation to date of \$1,400:

Dr.-Cash (Acct. No. 731)	\$200.00
Dr.-Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	1,400.00
Dr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)	200.00
Cr.-Furniture and Equipment (Acct. No. 774)	\$1,800.00

- d) When furniture and equipment is disposed of by sale where composite-life basis of depreciation is followed. Assume a typewriter sold for \$200; original cost of \$1,800 accumulated depreciation to date of \$1,400:

Dr.-Cash (Acct. No. 731)	\$200.00
Dr.-Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	1,600.00
Cr.-Furniture and Equipment (Acct. No. 774)	\$1,800.00

Detailed Transactions

Debit:

- a) With cost of such assets purchased.

Credit:

- a) With cost of such assets upon sale or other disposition.

775-ALLOWANCE FOR DEPRECIATION OF FURNITURE AND EQUIPMENT

This account reflects the amount provided for depreciation or obsolescence of the respective assets. See description of “Furniture and Equipment”, (Account No. 774) for a description of the unit and composite-life bases of depreciation as well as for the method to be followed when assets are disposed of under each such basis of depreciation. The balance of this account should be deducted from the balance of Account No. 774 when Statements of Financial Condition are prepared.

Illustrative Entries

See description of “Furniture and Equipment”, (Account No. 774).

776-LEASEHOLD IMPROVEMENTS

This account represents the cost to the credit union of leasehold improvements which are currently being used in connection with its operations. Leasehold improvements are improvements made to the lessor’s property which is occupied or otherwise used by the lessee credit union under a lease or rental agreement. The leasehold improvements are paid by the credit union, but they revert to the lessor upon termination of the lease. Leasehold improvements frequently represent significant payments by the credit union, and for this reason, a separate asset account (Account No. 776) should be established for amortizing these improvements.

Leasehold improvements can arise when property has been leased and additions, improvements, or alterations are made to make the property more usable by the credit union. Funds expended by the credit union to improve or alter buildings provided for the credit union’s use on military installations should be recorded as leasehold improvements. This account also may be charged with the cost of renovations (including repair and decoration costs) made when premises are initially occupied for the purpose of making the property usable by the credit union.

Leasehold improvements should be amortized over the period of the lease giving recognition to renewal options or the estimated life of the improvements, whichever period is the shorter. In the case of premises occupied without a formal lease, the amortization should be made over the estimated life of the improvements, unless the directors have a definite basis for determining the period the credit union will occupy the premises. The amortization should be made over the life of the improvements or the estimated period of occupancy, whichever period is the shorter. This requirement is applicable unless the directors have a definite basis for determining the period that the credit union will occupy the premises.

The amortization of leasehold improvements should be made by charging the expense, "Amortization of Leasehold Improvements", (Account No. 255), and crediting "Allowance for Amortization of Leasehold Improvements", (Account No. 777). The later account does not apply to funds expended to construct buildings on Department of Defense installations. Those funds need to be recorded in "Leased Assets", (Account No. 778).

If the credit union does not use the leasehold improvements or abandons the premises prior to complete amortization of leasehold improvements, the accumulated amortization to date should be cleared from Account Nos. 776 and 777 and the difference charged to "Gain (Loss) on Disposition of Assets", Account No. 430.

Entries in the Journal and Cash Record

All entries debiting or crediting this account should be recorded in the "Miscellaneous" columns.

Illustrative Entries

-
- a) With the cost of leasehold improvements:

Dr.-Leasehold Improvements	
(Acct. No. 776)	\$15,000
Cr.-Cash (Acct. No. 731)	\$15,000

- b) With the capitalized value of leasehold improvements when the lease expires; assume \$15,000 cost of improvements and amortization previously recorded of \$15,000:

Dr.-Allowance for Amortization	
of leasehold Improvements	
(Acct. No. 777)	\$15,000
Cr.-Leasehold Improvements	
(Acct. No. 776)	\$15,000

- c) If the leased premises are vacated by the credit union before the leasehold improvements are fully amortized; assume \$15,000 cost of improvements and amortization to date of \$12,000:

Dr.-Gain (Loss) on Disposition	
of Assets (Acct. No. 430)	\$3,000
Dr.-Allowance for Amortization	
of leasehold Improvements	
(Acct. No. 777)	12,000
Cr.-Leasehold Improvements	
(Acct. No. 776)	\$15,000

Detailed Transactions

Debit:

- a) With cost of leasehold improvements when incurred.

Credit:

- a) With cost of leasehold improvements carried in this account upon termination of the lease, when the premises are vacated by the credit union, or when leasehold improvements are charged off for any other reason.

777-ALLOWANCE FOR AMORTIZATION OF LEASEHOLD IMPROVEMENTS

This account reflects the accumulated allowance for leasehold improvements. The balance of this account should be deducted from the balance of "Leasehold Improvements", (Account No. 776), when statements of financial condition are prepared.

Entries in the Journal and Cash Record

All entries affecting this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Detailed Transactions

Credit:

- a) Periodically, with amount necessary to amortize the leasehold improvement asset account over the period of the lease, or the estimated value of the improvements, whichever is shorter.

Debit:

- a) With amount of accumulated amortization upon termination of the lease or when leasehold improvements are charged off for any other reason.

778-LEASED ASSETS UNDER CAPITAL LEASE

This account is used to record a credit union's capital lease with a lessor. It should consist of the lesser of the discounted present value of the lessee's minimum lease payments or the fair market value of the asset at the inception of the lease. Refer to section 6000 for an in-depth discussion of lease accounting and illustrative entries.

779-ALLOWANCE FOR DEPRECIATION OF LEASED ASSETS

This account represents the amount provided for the depreciation of a leased asset. Leased assets should be depreciated over the term of each asset's lease. The depreciation should be amortized monthly, quarterly, semiannually, or annually, but as a minimum it should be amortized within each regular share account dividend period.

780-ACCRUED INCOME

The accounts prescribed in this series are designed to apply to credit unions which are following the full accrual basis of accounting. The accounts may be adopted for use by credit unions following the modified cash basis of accounting. Credit unions using these accounts should include in their accounts and financial statements income earned during each month, or other period adopted, instead of including income only sporadically when received in cash. The recording of income on investments under the accrual procedures set forth in “Accrued Income on Investments”, (Account No. 782) is particularly recommended for credit unions with substantial investments.

781-ACCRUED INTEREST ON LOANS

For credit unions following the accrual basis of accounting in recording interest on loans, this account reflects the aggregate amount of accrued interest earned but not yet collected on loans outstanding. The accrued interest earned should include the applicable amount of amortization relating to net origination fees. This account also includes accrued interest earned on loans purchased from liquidating credit unions. The accrued interest earned on loans purchased from liquidating credit unions should include the applicable amount of amortization relating to the discount on loans purchased.

At the end of each month the credit union should record in this account, interest earned but not yet received on outstanding loans with an offsetting credit to “Interest on Loans”, (Account No. 111) or “Income from Loans of Liquidating Credit Unions”, (Account No. 113) as appropriate. The computation of interest earned may be derived through manual computations or from the credit union’s data processor’s computer totals, if applicable. Reference should be made to Section 4050.1 (Account No. 111) for sample computations of accruing interest on loans.

Interest should not be accrued on loans 3 months or more delinquent. Accruals of interest on loans should be reversed when the loan is determined to be a loss or when it becomes 12 months delinquent whichever ever occurs first, by debiting the appropriate income account and crediting the appropriate accrued income account. Accrual of interest may continue, however, if the credit union is receiving substantial payments and expects to receive full payment. Interest collected during the month should be credited to income and the accrual process is then repeated at the next month end. As an alternative to reversing the accrual entry on the first day of the following month, interest collected may be credited to accrued income until that account reaches zero with subsequent interest collections being credited to income.

Adjustments should be made to this account:

- When required based on a periodic verification made to determine actual accrued interest receivable on loans, or on a segment of loans for which a separate subcontrol of accrued interest receivable is maintained.
- For accrued interest charged off with the approval of the board of directors, with offsetting debit to “Allowance for Loan Losses”, (Account No. 719).

Recommended procedures for maintaining this account are outlined in Sections 4030.2.4.1, 4030.2.9 and 4050.1.

Entries in the Journal and Cash Record

This account should be debited each month with summary accruals of interest earned based on Journal Voucher entries made in the "Miscellaneous Debit" column. The credits to this account should consist mainly of entries made to the reverse accruals. Other entries to this account should be posted from the "Miscellaneous" columns for adjustments, either debit or credit, made to this account.

Illustrative Entries

- a) To record the total interest earned on loans for the month:

Dr.-Accrued Interest on Loans	
(Acct. No. 781)	\$6,500
Cr.-Interest on Loans	
(Acct. No. 111)	\$6,500

- b) To record reversal of the accrual entry on the first day of the following month:

Dr.-Interest on Loans	
(Acct. No. 111)	\$6,500
Cr.-Accrued Interest on Loans	
(Acct. No. 781)	\$6,500

- c) If the periodic inventory made to determine whether the balance of this account is equal to the actual interest earned but not collected on outstanding loans show that this account balance is overstated by \$230.00, the entry to adjust would be:

Dr.-Interest on Loans	
(Acct. No. 111)	\$230.00
Cr.-Accrued Interest on Loans	
(Acct. No. 781)	\$230.00

NOTE: If this account balance is understated, the opposite entry would be made, debiting Account No. 781 and crediting Account No. 111.

Detailed Transactions

Debit:

- a) At the end of each month with interest earned on loans outstanding.
- b) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify this account exceeds the balance of this account.

Credit:

- a) With interest on loans collected.
- b) With adjustments to charge off interest accrued when loans are charged off, subject to the approval of the board of directors.
- c) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify this account is less than the balance of this account.

782-ACCRUED INCOME ON INVESTMENTS

For credit unions using the accrual basis of accounting to record income from investments, this account reflects the total amount of income earned but not yet collected.

Income on investments should be debited to this account in each accrual period (monthly, quarterly, or at the end of a regular share account dividend period) to show the actual amount earned in the period based upon the time the investments are owned or held; the offsetting credit should be to the appropriate investment income account (120 series). When the income is received, or credited to the investment account (common trust or mutual fund investments, investments in savings and loans associations, investments in credit union shares, etc.), this account should be credited. See Section 4030.2.4.2 for a more detailed discussion of the method of accruing income on investments.

Income on U. S. Government Obligations and Federal Agency Securities may be accrued on a 30-day month. Income from other investments normally should be accrued on an actual day (365/366-day year) basis.

Where income is accrued based on estimates (e.g., income on Common Trust or Mutual Fund Investments or shares in savings and loan associations and other credit unions), an appropriate adjustment to the accrual amounts should be made when the actual amounts are known.

Illustrative Entries

-
- a) To accrue one month's interest on \$12,000 of 5 percent U.S. Government Obligations; semiannual interest amount of \$300.00 is divided by 6 to compute amount applicable to each month:

Dr.-Accrued Income on Investments

(Acct. No. 782) \$50.00

Cr.-Income from U.S. Govern-

ment Obligations (Acct. No. 121) \$50.00

- b) To estimate and accrue the income on Common Trust or Mutual Fund Investments, apply the effective rate of income shown on the most recent advice of income received to the average balance of the investment for the period; e.g. average investments of \$10,000 x 4.8% rate equals \$480 for a year, current accrual for 1 month - \$480 divided by 12 equals \$40.00:

Dr.-Accrued Income on Investments	
(Acct. No. 782)	\$40.00
Cr.-Income from Common Trust	
Investments (Acct. No. 125)	\$40.00

- c) Building on entry b. above, if the advice of income credited on the Common Trust or Mutual Fund Investments received in the ensuing month shows income credited for the preceding month as \$46.00, the following adjustment should be made:

Dr.-Available-for-Sale Securities	
(Acct. No. 743)	\$46.00
Cr.-Accounts from Investments	
(Acct. No. 121)	\$6.00
Cr.-Accrued Income on Investments	
(Acct. No. 782)	40.00

- d) Upon receipt of interest income from investments:

Dr.-Cash (Acct. No. 731)	\$600.00
Cr.-Accrued Income on Investments	
(Acct. No. 782)	\$600.00

- e) To accrue income on shares in other credit unions, use the applicable rate for the most recent dividend paid by the credit union in which shares are owned and accrue periodic income as follows:

Dr.-Accrued Income on Investments	
(Acct. No. 782)	\$300.00
Cr.-Income from Shares/Deposits/ Certificates of Other Credit Unions	
(Acct. No. 127)	\$300.00

NOTE: When the actual dividend is received, an adjustment of the accrual should be made for the difference, if any, between the estimated and actual income.

Detailed Transactions

Debit:

- a) With income earned applicable to the accrual period on all types of investments.
- b) With the amount of accrued interest purchased to the date of acquisition of securities when investments are made in bonds or other securities.

Credit:

- a) With interest and dividends collected or added to the investment account(s), as the transactions occur.

NOTE: For credit unions not using the accrual basis for recording income on investments, this account should be charged with the amount of accrued interest purchased to the date of acquisition of ties. The amount debited to this account at time of acquisition should be credited hereto when the first payment is received on the securities, and the remainder of the interest payment should be credited to the applicable investment income account (120 series).

783-ACCRUED CREDIT CARD INCOME

This account is used to record billed interest charges that were calculated by the credit card program's processor and added to the members' statements of account. When the members' payments are posted by the credit card program's processor, the total amount that was posted should be credited to this account. Refer to the illustrative entries in Section 6000 for further guidance in the use of this account.

784-ACCRUED INTEREST-REAL ESTATE LOANS

This account reflects the aggregate amount of accrued interest earned but not collected on outstanding real estate loans at the end of the accounting period for those credit unions following the accrual basis of accounting. The accrued interest earned includes the applicable amount of amortization relating to net origination fees.

Interest should not be accrued on loans 3 or more months delinquent. If the loan is charged-off prior to becoming three months delinquent, the amount of interest accrued should be reversed by debiting "Interest on Real Estate Loans", (Account No. 114) and crediting "Accrued Interest on Real Estate Loans", (Account No. 784).

785-PURCHASED ACCRUED INTEREST RECEIVABLE ON LOANS (100%)

This account is used to record accrued interest that was included in the purchase of loans. The amount of accrued interest purchased would be that amount of interest due on the loans purchased, as of the date of the transaction. The account should be used only when the credit union purchases entire loans and not a participating interest in loans. The account should therefore be debited for the amount of any earned but

unpaid interest on whole loans that were purchased by the credit union. It should be credited as the servicer forwards the borrower's loan payments to the credit union. Once the balance of the account is reduced to zero, the amount of subsequent interest payments should be credited to "Interest on Loans and Other Obligations Purchased", (Account No. 115).

786-ACCRUED INTEREST ON LOAN PARTICIPATIONS PURCHASED

This account is debited with any accrued interest on loans that was included in the purchase of a loan participation(s). A separate General Ledger subsidiary record should be established for each participation package. The total of the balances of each subsidiary record should agree with the balance of this account. The account should be credited with applicable interest payments the servicer makes to the credit union in accordance with the participation agreement. Once the balance of the account is reduced to zero, the amounts applicable to interest payments should be credited to "Interest on Loan Participations Purchased", (Account No. 116). Refer to Section 6000 for a further discussion and illustrative entries with regard to the use of this account.

787-ACCRUED INTEREST-OTHER LINES OF CREDIT TO MEMBERS

Use this account to record accrued (unpaid) interest on "Lines of Credit to Members", (Account No. 702), other than credit cards. It should be used primarily by those credit unions that follow the accrual basis of accounting but may also be used by those credit unions that following the modified cash basis of accounting. The account should include the aggregate amount of interest earned but not yet collected on loans outstanding at the end of each month. This should be accomplished by debiting "Accrued Interest-Other Lines of Credit to Members", (Account No. 787) and crediting "Interest on Lines of Credit", (Account No. 112).

On the first day of the following month, the accrual entry should be reversed by debiting "Interest on Lines of Credit", (Account No. 112) and crediting "Accrued Interest-Other Lines of Credit to Members", (Account No. 787). As a preferable alternative to reversing the accrual entry, interest collected may be credited to Account No. 787 until its balance reaches zero. Once this occurs, subsequent amounts received should be credited to "Interest on Lines of Credit", (Account No. 112).

Adjustments should be made to reflect any errors made in the determination of actual accrued interest. They will also be needed when accrued interest is charged off against the "Allowance for Loan Losses", (Account No. 719) in accordance with the board of directors' authorization.

Entries in the Journal and Cash Record

This account should be debited each month with summary accruals of interest earned on lines of credit to members, other than credit cards, based on Journal Voucher entries in the "Miscellaneous-Debit" column of the Journal and Cash Record. Other entries to this account should also be posted from the "Miscellaneous" columns for adjustments either debit or credit, made to this account.

Illustrative Entries

- a) To record the total interest earned on lines of credit for the month:

Dr.-Accrued Income-Other Lines of Credit to Members (Acct. No. 787)	\$13,000
Cr.-Interest on Lines of Credit (Acct. No. 112)	\$13,000

- b) To record reversal of the entry on the first day of the following month:

Dr.-Interest on Lines of Credit (Acct. No. 112)	\$13,000
Cr.-Accrued Interest-Other :Lines Lines of Credit to Members (Acct. No. 787)	\$13,000

- c) If a periodic inventory is made to determine whether the balance of this account is equal to the actual interest earned and uncollected on outstanding lines of credit, and it is found that the account balance is overstated by \$460.00, the following entry would be recorded:

Dr.-Interest on Lines of Credit (Acct. No. 112)	\$460.00
Cr.-Accrued Interest-Other :Lines Lines of Credit to Members (Acct. No. 787)	\$460.00

NOTE: If the account balance was understated, the opposite entry would be recorded.

Detailed Transactions

Debit:

- a) At the end of each month with interest earned on outstanding lines of credit balances.
- b) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify this account's balance exceeds the balance of this account.

Credit:

- a) With interest on loans collected.
- b) With adjustments to charge off interest accrued when loans are charged off, subject to the approval of the board of directors.

- c) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify this account's balance is less than the balance of the account.

788-ACCRUED INCOME ON NCUSIF INVESTMENT

This account should be used to record the redistribution (dividends) of NCUSIF equity to participating credit unions by the NCUA Board as necessary to reduce the NCUSIF to its normal operating level.

NOTE: Accruals should be recorded only after the NCUA Board declares a redistribution from the NCUSIF, not in anticipation of a declaration of dividends.

Illustrative Entries

-
- a) To record a declared redistribution from the NCUSIF:

Dr.-Accrued Income on NCUSIF Investment	
(Acct. No. 788)	\$450.00
Cr.-Income from Investment in	
NCUSIF (Acct. No. 123)	\$450.00

Reference Rules and Regulations, Part 741.8.

789-OTHER ACCRUED INCOME

This account is used to record earned income not otherwise provided for in other accrued income accounts. This account might be used for rental income, income due from the sale of money orders, travelers checks, or other reimbursements for costs incurred for services that have been furnished to members.

This account should include the total amount of interest earned but not counted for these miscellaneous items. This can be accomplished by debiting "Other Accrued Income", (Account No. 789) and crediting "Other Miscellaneous Operating Income", (Account No. 151) at the end of the month, quarter, or regular share account dividend period. On the following day (i.e., first day of the month), the accrual entry should be reversed by debiting "Other Miscellaneous Operating Income", (Account No. 151) and crediting "Other Accrued Income", (Account No. 789). As a preferable alternative to reversing this accrual entry, interest collected may be credited directly to Account No. 789 until its balance reaches zero. Once this occurs, subsequent amounts received should be credited to "Other Miscellaneous Operating Income", (Account No. 151).

The illustrative entries and detailed transactions for this account will be similar to those previously outlined for "Accrued Income on Investments", (Account No. 782). Therefore, transactions and entries will not be repeated here.

790-ALL OTHER ASSETS

792-INSURANCE PREMIUM STABILIZATION RESERVE

This account may be used by those credit unions participating in risk rating plans for loan protection and life savings insurance. The account should reflect funds advanced to the insurance company or funds retained by the insurance company which would have otherwise been returned to the credit union as a dividend or refund of premium paid. The funds advanced to, or withheld by the insurance company, serve as a reserve from which claims will be paid when previous claims have exceeded a stated portion of premium payments.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record.

Illustrative Entries

-
- a) To record funds advanced to the insurance company in accordance with the risk rating plan contractual agreement:

Dr.-Insurance Premium Stabilization Reserve (Acct. No. 792)	\$1,000.00
Cr.-Cash (Acct. No. 731)	\$1,000.00

- b) To record a premium refund retained by the insurance company as a reserve for payment of claims:

Dr.-Insurance Premium Stabilization Reserve (Acct. No. 792)	\$500.00
Cr.-Members' Insurance (Acct. Nos. 312 and/or 313)	\$500.00

For another method of recording this transaction refer to the Deferred Credit Insurance Premium Stabilization Reserve (Account No. 888).

- c) When the credit union is notified of excess claims paid by this insurance company and charged to the reserve:

Dr.-Members' Insurance (Acct. Nos. 312 and/or 313)	\$200.00
Cr.-Insurance Premium Stabilization Reserve (Acct. No. 792)	\$200.00

Detailed Transactions

Debit:

- a) With funds advanced to, or withheld from premium refunds by the insurance company.

Credit:

- a) When notified by the insurance company of excess claims paid and charged to the account.

793-MONETARY CONTROL RESERVE DEPOSITS

This account is used to record monetary reserves held on deposit with the Federal Reserve System against its nonpersonal time deposits. The cash is held at the Federal Reserve in a noninterest bearing account.

Entries in the Journal and Cash Record

This account should be debited for any cash deposits made with the Federal Reserve System in the "Miscellaneous-Debit" column. It should be credited when the funds are withdrawn in the "Miscellaneous-Credit" column.

Illustrative Entries

-
- a) When a cash deposit is made into the Federal Reserve System:

Dr.-Monetary Control Reserve Deposits	
(Acct. No. 793)	\$5,450.00
Cr.-Cash (Acct. No. 731)	\$5,450.00

- b) When the balance of the fund can be reduced and the funds are withdrawn:

Dr.-Cash (Acct. No. 731)	\$1,000.00
Cr.-Monetary Control Reserve	
Deposits (Acct. No. 793)	\$1,000.00

797-ADVANCE PAYMENTS BY BORROWERS FOR TAXES AND INSURANCE ON SERVICED LOANS

This account is used when loans are sold and the credit union retains the servicing of those loans. At the time of sale, the escrow balances for the loans sold are transferred from "Advances for Taxes, Insurance and Other Charges", (Account No. 725) to this account. This account should thus reflect escrow payments received for loans that have been sold.

798-ASSETS ACQUIRED IN LIQUIDATION OF LOANS

This account reflects the value of assets acquired by the credit union in the liquidation of loans for which the related loan obligation of the borrower has been canceled (see Section 51 10). If postings to this account involve numerous assets where the borrower's loan obligation has been canceled, subsidiary records should be maintained to support the balance in Account No. 798. Assets acquired should initially be recorded in this account at the cost of such assets at foreclosure which is fair value of the asset foreclosed or repossessed. Subsequent to foreclosure, the records should reflect the asset at the lower of (a) fair value minus estimated costs to sell, or (b) cost at the time of foreclosure.

Illustrative Entries

-
- a) To record the value of assets acquired when the obligation of the borrower has been canceled:

Dr.-Assets Acquired in Liquidation of Loans	
(Acct. No. 798)	\$400.00
Cr.-Loans (Acct. No. 701)	\$400.00

- b) To record the cost of acquisition or disposition:

Dr.-Assets Acquired in Liquidation of Loans	
(Acct. No. 798)	\$30.00
Cr.-Cash (Acct. No. 731)	\$30.00

- c) To record the write-down of the carrying value of assets acquired as authorized by the board:

Dr.-Allowance for Loan Losses	
(Acct. No. 719)	\$200.00
Cr.-Assets Acquired in Liquidation of Loans (Acct. No. 798)	\$200.00

- d) To record the disposition of assets acquired in liquidation of loans-assume assets carried in Account No. 798 for \$200.00 are sold for \$150.00:

Dr.-Cash (Acct. No. 731)	\$150.00
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or

Dr.-Notes and Contracts Receivable	
(Acct. No. 711)	\$150.00
Cr.-Assets Acquired in Liquidation of Loans (Acct. No. 798)	\$150.00

NOTE: In this case, a balance of \$50.00 remaining in Account No. 798 should be charged off to Allowance for Loan Losses (Account No. 719), with the approval of the board of directors

799-OTHER ASSETS

This account is used to record transactions involving assets for which there is no specific asset account provided. Among the items which may be included in this account are:

- a) Deposits paid on safe deposit box keys or utility services.
- b) Collection and court costs advanced on loans.
- c) Property owned by the credit union for which no other account is provided.

Posting to General Ledger

Entries to this account are posted individually from the “Miscellaneous” columns of the Journal and Cash Record. Each entry should be adequately explained in the “Explanatory Remarks” column of the General Ledger account.

Detailed Transactions

Debit:

- a) With other assets to be entered in this account.

Credit:

- a) With amounts recorded in this account when collected or otherwise disposed of.

4050.5 LIABILITY ACCOUNTS (800 SERIES)

800-ACCOUNTS PAYABLE

The accounts in this group (800 to 809, inclusive) are available for needed classification by credit unions for unpaid open account liabilities and other accounts payable transactions.

Every liability account in the 800 series should be supported by subsidiary ledgers for each payable item in the accounts. These subsidiary ledgers should reflect the initial credit to the account, date established, periodic debits and the remaining balance of each item in the particular General Ledger control accounts. These subsidiary ledgers need to be totaled and balanced to the respective General Ledger control accounts each month. For example, assume that “Accrued Expenses”, (Account No. 850), has a month-end balance of \$4,300 due to the accrual of salary expense not yet paid and employee benefits not yet paid. The subsidiary ledger balance for “Accrued Salaries”, (Account No. 851) totals \$1,700 and the subsidiary ledger for “Accrued Employee Benefits”, (Account No. 852) (for pension fund expense) total \$2,600. These subsidiary ledgers, when totaled, balance to the General Ledger control for “Accrued Expenses”, (Account No. 850).

801-ACCOUNTS PAYABLE

This account reflects the open account liabilities of the credit union. Examples of such items are shown below. Separate accounts should be established if there is a large number of activity relating to any one item or if outstanding balances are material relating to any one item. The separate accounts would be numbered as Accounts Payable 801.2, 801.3, etc. (Account No. 801.1 is already labeled below.)

Invoices For Which Prompt Payment Will not be Made

An expense item for which prompt payment will not be made may be credited to this account with an offsetting debit to the appropriate expense classification in the 200-300 series of accounts.

Cash Advances

When cash is advanced to the credit union for a specific purpose and such advance is expected to be repaid at some future date, the amount of this advance should be credited to this account with an offsetting debit to "Cash", (Account No. 731).

Unpresented Checks

Checks issued by the credit union which have not been presented for payment after a reasonable period has elapsed (90 days or more) should be credited to this account with an offsetting debit to "Cash", (Account No. 731). The amount disbursed should be retained in this account until the statutory period prescribed for presentation of checks has expired in accordance with state escheat or abandoned property laws except for disbursed share withdrawals and loans. Disbursements of the latter type should be reversed, returning the amount paid to their source accounts. It may then be cleared by debiting this account and crediting "Other Miscellaneous Operating Income", (Account No. 151). In the event, however, that state abandoned property law provides for escheating outstanding checks, such items should be carried in "Accounts Payable", (Account No. 801) until the period provided by such law has expired, after which an amount equivalent to the total of such checks must be turned over to the state.

Most states have enacted an escheat or abandoned property law. Under this law, property which becomes dormant for a certain period of time must be reported and released to the state. Dormant accounts, unpresented checks, and other abandoned items can become escheatable under a state law. State authorities may thus conduct limited inspections of the credit union's records to determine compliance with abandoned property laws. The value of this abandoned property should be carried in "Accounts Payable", (Account No. 801) until reported and released to the state.

Accounts of Deceased or Terminated Members

Amounts in share accounts of deceased or terminated members are transferred to this account. Refer to the Federal Credit Union Bylaws, Article III, Section 5(e), regarding the period of time during which an account for a deceased or terminated member could be kept open until transferred to this account.

Entries in the Journal and Cash Record

This account should be credited in the "Miscellaneous-Credit" column when a liability item is set up. It should be debited in the "Miscellaneous-Debit" column when the item is paid or other disposition is made.

Substantial expense items due and payable should be recorded promptly and at least at the end of a dividend period.

Posting to the General Ledger

The debit and credit items for Accounts Payable in the “Miscellaneous” columns are posted individually to the General Ledger. The “Explanatory Remarks” column should show clearly the necessary details of the entries posted to this account, such as to whom the account is payable and the purpose. In the case of unrepresented checks, a notation should be made of the check number, date of the check and the payee.

Illustrative Entries

-
- a) When an expense is incurred for purchase of supplies and payment is not immediately made:

Dr.-Stationery and Supplies	
(Acct. No. 264)	\$150.00
Cr.-Accounts Payable	
(Acct. No. 801)	\$150.00

- b) When payment is made of liabilities previously recorded in this account:

Dr.-Accounts Payable	
(Acct. No. 801)	\$150.00
Cr.-Cash (Acct. No. 731)	\$150.00

Detailed Transactions

Credit:

- a) With open accounts and other liabilities recorded as Accounts Payable.
- b) With credit union checks issued after they have been outstanding a reasonable period (90 days or more).

Debit:

- a) With payments made of liabilities recorded in this account.
- b) With the amount of unrepresented credit union checks upon expiration of the statutory period for presentation of checks (offsetting credit should be to “Other Miscellaneous Operating Income”, (Account No. 151), or if escheat to the state as required, to “Cash”, (Account No. 731).

801.1-ACCOUNTS PAYABLE TRAVELER'S CHECKS AND MONEY ORDERS SOLD

This account is used when the credit union is acting as an agent for the sale of checks or money orders for another institution or organization. This account shows the liability to the particular vendor or other party for checks and money orders sold. The account must be supported by accurate subsidiary records to identify the specific items sold. See Section 5080 discussing establishment of subsidiary records. Separate accounts payable may be established for each vendor, or each item (traveler's checks or money orders).

Entries in the Journal and Cash Record

This account should be credited in the "Miscellaneous-Credit" column when checks or money orders are sold by the credit union for a third party (an agent). The credit union is only liable for the amount due to the agent, which should include the face amount of the item sold plus fees owed to the agent. Any fees collected by the credit union as part of the transaction should be entered in Account No. 152 as "Miscellaneous Fee Income."

Illustrative Entries

-
- a) When a credit union sells a check acting as an agent for the vendor, and fees are collected which are due both to the vendor and the credit union:

Dr.-Cash (Acct. No. 731)	\$100.50
Cr.-Accounts Payable	
Traveler's Checks and Money	
Orders (Acct. No. 801.1)	\$100.25
(For \$100 face amount of item	
sold, with a \$.50 fee charged, half	
of which is due to the vendor)	
Cr.-Miscellaneous Fee	
Income (Acct. No. 152)25
(The portion of the \$.50 fee	
collected, which is due to the	
credit union.)	

- b) When the funds collected from the sale of an item are remitted to the vendor, including fees due to the vendor:

Dr.-Accounts Payable-Traveler's	
Checks and Money Orders	
(Acct. No. 181.1)	\$100.25
Cr.-Cash (Acct. No. 731)	\$100.25

802-ACCOUNTS PAYABLE-UNDISTRIBUTED PAYMENTS

This account is provided for use by credit unions to record payments received when a delay will occur before the amounts of the credits to the particular accounts are determined. The account is specifically established for those credit unions using the “total payment vendor” system.

When the credit union uses a computer or other mechanical equipment to compute interest on loans, this account should be credited with the amount of undistributed loan payments received. When the computer output record (generally the Transaction Register) is received showing the distribution of loan payments to principal and interest, this account should be debited with offsetting credits being made to loans and interest. This account should be used similarly when the distribution of the payments received on shares, loan principal and interest is made by the computer.

Where the credit union’s recordkeeping is performed manually and in the event the breakdown of payments received to “Shares”, “Loans”, “Interest”, etc., is not developed in time to provide the distribution to each General Ledger account affected, the total payments may be credited to this account and cleared when the distribution is determined.

Entries in the Journal and Cash Record

Entries affecting this account should be recorded in the “Miscellaneous” columns unless, because of the volume of these entries, the credit union designates separate column(s) for this purpose.

Illustrative Entries

-
- a) When loan repayments are received:

Dr.-Cash (Acct. No. 731)	\$1,525.00
Cr.-Accounts Payable	
Undistributed Payments	
(Acct. No. 802)	\$1,525.00

- b) When transaction details have been determined:

Dr.-Accounts Payable-	
Undistributed Payments	
(Acct. No. 802)	\$1,525.00
Cr.-Loans (Acct. No. 701)	\$1,215.00
Cr.-Interest on Loans (Acct. No. 111)	200.00
Cr.-Shares (Acct. No. 901)	110.00

Detailed Transactions

Credit:

- a) With amounts of loan repayments received for which the detailed distribution to particular general ledger accounts has not been determined.

Debit:

- a) With amounts of loan repayment transactions applied to the appropriate general ledger accounts affected.

802.1-ACCOUNTS PAYABLE-CREDIT CARD PAYMENTS IN PROCESS

This account is used for credit card transactions when credit card line of credit payments have been received at the credit union office. The amount of the payment is credited to this account until the credit card processor has posted the member's credit card account. When the member's account has been posted, this account should be debited for the amount of the payment. The corresponding credits should be to "Accrued Credit Card Income", (Account No. 783), for the amount of interest due, and "Lines of Credit to Members-Credit Cards" (Account No. 702.1) for the remainder of this payment. Refer to Section 6000 for illustrative Journal and Cash Record entries.

802.2-ACCOUNTS PAYABLE-CREDIT CARD ADJUSTMENTS IN PROCESS

802.3-ACCOUNTS PAYABLE-CREDIT CARD CHARGEBACKS IN PROCESS

These accounts are used when credit union personnel initiate adjustments or chargebacks to a credit cardholder's account. The amount of the adjustment or chargeback is recorded in these accounts until the credit card processor has accepted the adjustment or chargeback and has posted it to the member's account, or has rejected it. At that time, a corresponding entry is made to reverse the amount of the original posting to these General Ledger accounts. Refer to Section 6000 for illustrative Journal and Cash Record entries.

803-ACCOUNTS PAYABLE-UNDISTRIBUTED PAYROLL DEDUCTIONS OR ALLOTMENTS

This account is to be used when the credit union receives payroll deduction checks and the individual deductions have not yet been posted to member accounts.

Truth in Savings (TIS) requires undistributed payroll deductions to be considered part of a member's account balance upon which dividends will be calculated, unless a written contract exists between the member and the credit union. The contract must indicate, the credit union may hold the funds without adding it to the share account balance, and by doing so, the member may forfeit any dividends due them under TIS. If the deduction is for a loan payment, Truth in Lending (TIL) may impact the treatment of these accounts. To avoid any TIL violations, the deduction should be voluntary, and the member should have access to the funds.

Entries in the Journal and Cash Record

Entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

-
- a) When collections are received representing payroll deductions or allotments:

Dr.-Cash (Acct. No. 731)	\$4,000.00
Cr.-Accounts Payable	
Undistributed Payroll	
Deductions or Allotments	
(Acct. No. 803)	\$4,000.00

- b) When distribution details have been determined based on computer processing:

Dr.-Accounts Payable-	
Undistributed Payrolls	
Deductions or Allotments (Acct. No. 803)	\$4,000.00
Cr.-Loans (Acct. No. 701)	\$3,300.00
Cr.-Interest on Loans (Acct. No. 111)	300.00
Cr.-Shares (Acct. No. 901)	400.00

Detailed Transactions

Credit:

- a) With amounts of undistributed payroll deductions or allotments received which have been or will be sent to the computer for processing.

Debit:

- a) With amounts of payroll deductions or allotments processed by the computer and applied to appropriate other accounts affected.

804-ACCOUNTS PAYABLE-CHECK TRANSMITTAL SERVICE

This account is for use only by federal credit unions which provide check transmittal services to their members. The balance in the account should represent the total amount of undistributed members' paychecks payable by the credit union to the members' bank accounts. This account should be cleared by remittances to the members' banks on the day the funds are received by the credit union or as promptly as possible thereafter.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns unless, because of volume, the credit union assigns a separate column for credits to this account.

Subsidiary Accounts Payable Record

The credit union must establish and maintain subsidiary accounts payable records for each depository bank to which amounts are owed.

Illustrative Entries

-
- a) A member presents his paycheck for a loan payment to the credit union with the remainder to be transmitted to his checking account:

Dr.-Cash (Acct. No. 731)	\$300.00
Cr.-Loans (Acct. No. 701)	\$45.00
Cr.-Interest on Loans (Acct. No. 111)	5.00
Cr.-Accounts Payable - Check Transmittal Service (Acct. No. 804)	250.00

- b) A credit union sends a check to the member's bank checking account to forward the member's net paycheck:

Dr.-Accounts Payable-Check Transmittal Service (Acct. No. 804)	\$250.00
Cr.-Cash (Acct. No. 731)	\$250.00

Detailed Transactions

Credit:

- a) With amounts due member's depository bank for portion of paychecks not applied to credit union accounts.

Debit:

- a) With amounts remitted to depository banks to clear this account.

805-ACCOUNTS PAYABLE-DRAFTS AUTHORIZED

This account represents the liability of the credit union for drafts authorized to be drawn on it, where it has been legally determined that a real liability is created by the authorization. This account should not be used where a liability for drafts authorized does not arise prior to the actual acceptance of the draft by the credit union, since the drafts ordinarily will be paid concurrently with acceptance.

When a legal liability exists upon authorization of drafts, this account should be credited when authority is issued to draw drafts on the credit union: the offsetting debit should be to the appropriate asset account, e.g., "Loans."

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Detailed Transactions

Credit:

- a) With amounts of drafts authorized for which the credit union has a legal liability.

Debit:

- a) With amounts of authorized drafts previously recorded in this account when presented for payment and paid or when the authorization is canceled.

806-ACCOUNTS PAYABLE-INSTALLMENT PAYMENTS ON U.S. BONDS

This account reflects the federal credit union's liability for installment payments received toward the purchases of U.S. Savings Bonds pending sufficient funds being available for issuance of the bonds.

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as agents of the U.S. Treasury Department for the sale of U.S. Savings Bonds. Only those federal credit unions that have applied to the U.S. Treasury and have been approved as issuing and/or paying agents may engage in savings bonds transactions.

When installment payments are received on bond purchases, this account should be credited with the liability for the funds pending issuance of U.S. Savings Bonds to the purchaser. When a bond is fully paid for and is issued, the purchase cost should be cleared from this account and transferred to "Accounts Payable-U.S. Savings Bond Remittance", (Account No. 807).

- a) When payments are received on installment purchase of U.S. Savings Bonds:

Dr.-Cash (Acct. No. 731) or Cash- U.S. Bond Installment Payments (Acct. No. 737)	\$122.50
Cr.-Accounts Payable-Installment Payments on U.S. Bonds (Acct. No. 806)	\$122.50

- b) When a bond is fully paid and is issued:

Dr.-Accounts Payable-Installment Payments on U.S. Bonds (Acct. No. 806)	\$150.00
Cr.-Accounts Payable U.S. Savings Bond Remittances (Acct. No. 807)	\$150.00

- c) When an authorization is canceled and a subscriber withdraws the balance on his installment account:

Dr.-Accounts Payable-Installment Payments on U.S. Bonds (Acct. No. 806)	\$12.50
Cr.-Cash (Acct. No. 731) or Cr.-Cash - U.S. Bond Installment Payments (Acct. No. 737)	\$12.50

- d) When remittance is made to the Federal Reserve Bank for bonds issued under the installment payment plan:

Dr.-Accounts Payable-U.S. Savings Bonds Remittance (Acct. No. 807)	\$150.00
Cr.-Cash (Acct. No. 731) or Cr.-Cash - U.S. Bond Installment Payments (Acct. No. 737)	\$150.00

Detailed Transactions

Credit:

- a) With installment payments received.

Debit:

- a) With installment payments withdrawn upon cancellation of a subscription.
- b) With installment amounts used for bond issuances (transfer liability to “Accounts Payable U.S. Savings Bond Remittances”, (Account No. 807)).

807-ACCOUNTS PAYABLE-U.S. SAVINGS BOND REMITTANCES

This account reflects the federal credit union’s liability for U.S. Savings Bonds issued pending transmittal of the funds collected to the Federal Reserve Bank.

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as agents of the U.S. Treasury Department for the sale of U.S. Savings Bonds. Only those federal credit unions that have applied to the U.S. Treasury and have been approved as issuing and/or paying agents may engage in savings bonds transactions.

This account should be credited with the cash payments received covering the issue of all U.S. Savings Bonds issued by the credit union. When sufficient funds are available for the issuance of a bond to installment purchasers, the bond issue price should be transferred to this Account No. 807 from “Accounts Payable-Installment Payments on U.S. Bonds”, (Account No. 806). Likewise, when cash is received covering the entire purchase of a U.S. Savings Bond or note purchased by installment payments, this account should be credited with the total amount received pending transmittal of the funds to the Federal Reserve Bank. When proceeds from the sales of Savings Bonds are remitted to the Federal Reserve Bank, this account should be debited.

Illustrative Entries

-
- a) To record the daily total cash received from the sale of Savings Bonds:

Dr.-Cash (Acct. No. 731)	\$75.00
Cr.-Accounts Payable-U.S. Savings Bond Remittances (Acct. No. 807)	\$75.00

- b) To record the remittance of savings bond sales to the Federal Reserve Bank:

Dr.-Accounts Payable-U.S. Savings Bond Remittances	
(Acct. No. 807)	\$75.00
Cr.-Cash (Acct. No. 731)	\$75.00

808-REAL ESTATE LOANS PAYABLE

Charges in connection with any home purchase transaction which are collected from the borrower or seller and paid out to third parties by the credit union (i.e., appraisal fees, credit report fees, title examination fees, etc.) should be recorded in this account.

This account does not include prepaid escrow funds, or the accumulation of funds from the periodic loan payments which are for the purpose of paying real estate taxes, hazard insurance and the like. Such periodic payments shall be recorded in either "Accounts Payable-Escrow Accounts", (Account No. 809) or "Other Shares", (Account No. 904).

If the amount collected from the borrower exceeds the actual charges incurred, the excess should be accounted for as loan origination fees. Likewise, if less is collected from the borrower than the actual charges, the difference should be accounted for as loan origination costs. The accounting for origination fees and costs is discussed in Account No. 703.1.

809-ESCROW ACCOUNTS

This account is used if a nonmember assumes a member's real estate loan and an escrow account is required. A subsidiary ledger should be established for each nonmember for whom an escrow account is maintained. An escrow account maintained for a nonmember bears interest at a rate equal to the dividend rate paid on regular share accounts. The interest paid on such accounts should be added to the escrow account payable at the end of each accounting period (or more often if desired) by debiting "Other Miscellaneous Operating Expenses", (Account No. 370) and crediting this account. The interest paid should be recorded on each nonmember subsidiary ledger and should be identified as interest.

The escrow account should provide for the accumulation of funds to pay for 1 year's taxes, assessments, insurance premiums, or other charges that could affect the credit union's first lien position.

At the time the account is opened, the nonmember should be asked to sign a blanket withdrawal authorization which permits the FCU to use the funds to make the required payments. The FCU should also arrange with each nonmember for whom an escrow account is maintained to promptly submit to the FCU for payment, any statements received relating to taxes, assessments, insurance premiums and other fees which are to be paid from the escrow account. Any disbursement made from an escrow account should be supported by such documents. Withdrawals of amounts in excess of the amount required to pay the fees for which the account was established are permissible at any time. Other withdrawals, except to pay the fees for which the account was established, should be prohibited.

810-NOTES AND INTEREST PAYABLE 811-MORTGAGE NOTES PAYABLE

811-MORTGAGE NOTES PAYABLE

This account reflects the unpaid principal balance of mortgage loans owed by the credit union and secured by real estate owned by the credit union.

Upon acquisition of real estate, the amount of any mortgage loan should be recorded in this account. As periodic payments are made, this account should be debited for the principal amounts paid.

Entries in the Journal and Cash Record

All entries affecting this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

-
- a) When real estate is acquired subject to a mortgage loan. Assume the purchase of real estate for \$60,000, with land value at \$15,000, cash paid of \$20,000, and mortgage note payable of \$40,000:

Dr.-Land (Acct. No. 771)	\$15,000.00
Dr.-Building (Acct. No. 772)	45,000.00
Cr.-Cash (Acct. No. 731)	\$20,000.00
Cr.-Mortgage Notes Payable (Acct. No. 811)	40,000.00

- b) When monthly payments are made in settlement of each mortgage installment:

Dr.-Interest on Borrowed Money (Acct. No. 340)	\$275.00
Dr.-Mortgage Notes Payable (Acct. No. 811)	83.33
Cr.-Cash (Acct. No. 731)	\$358.33

Detailed Transactions

Credit:

- a) With principal amount of mortgage notes payable when the liability is incurred.

Debit:

- a) With amounts of principal payments to reduce (liquidate) the liability recorded in this account.

812-NOTES PAYABLE-OTHER

This account reflects the liability of the credit union for funds borrowed. Such borrowings must be in accordance with the Federal Credit Union Act.

Entries in the Journal and Cash Record

This account is credited in the “Miscellaneous-Credit” column with the amount of notes payable which have been executed and delivered to creditors, including notes to other credit unions. The account is debited in the “Miscellaneous-Debit” column when the liability is wholly or partially liquidated.

Posting to the General Ledger

The debit and credit items to this account entered in the “Miscellaneous” columns in the Journal and Cash Record are posted individually to the General Ledger. Each note and any payments thereon should be specifically identified in the “Explanatory Remarks” column.

Subsidiary of General Ledger Account

If the credit union borrows funds from two or more sources, it should maintain subsidiary records that clearly identify transactions for each Note Payable. If subsidiary records are maintained, it will not be necessary to complete the “Explanatory Remarks” column of the General Ledger account.

Promissory Notes

Some credit unions borrow money from members or nonmembers and issue promissory notes, formerly called certificates of indebtedness or a similar name. Issuance of promissory notes is governed by Section 701.38 of the NCUA Rules and Regulations. The offering of promissory notes will necessitate the maintenance of a subsidiary ledger. If the note provides for payment of interest less frequently than the credit union’s accounting period, consideration should be given to accruing the interest not less frequently than the end of each accounting period so that the cost of the borrowed money can be allocated to the periods during which the expense is incurred. The accruals should be recorded as “Accrued Interest Payable”, (Account No. 818). Among the items to be considered for inclusion on the note are:

- Certificate number, prenumbered for control purposes.
- Date of issue.
- Credit union name and location, and name and address of lender.
- Amount of the certificate or space to record the amount.
- Interest rate and method and time of payment of interest. Also, whether there would be any penalty for early redemption and whether interest will continue to accrue after maturity.
- Maturity date. Conditions for early redemption, including but not limited to where and how it may be redeemed.
- Provisions for signature of the treasurer and countersignature of the president.

Retail Repurchase Agreements

Federal credit unions may offer retail repurchase agreements. A retail repurchase agreement is an uninsured borrowing. It involves the transfer of an interest in U.S. Government Securities, usually in denominations of less than \$100,000 for a period of less than 90 days. The credit union agrees to repurchase the instrument at the end of that period.

Any rate of interest may be offered on the repos. The repo should be automatically renewed or extended. The instrument should clearly state that the obligation does not represent Shares (savings), that it is not insured, and that it is not guaranteed in any way by the United States Government. The market value of the U.S. Government Security at the time of any purchase of a repo should at least be equal to the aggregate purchase price paid by retail repurchase purchasers secured by that security. All terms of the agreement should be fully and accurately disclosed. Retail repurchase agreements are subject to the borrowing limitations of Section 107 of the Federal Credit Union Act.

Illustrative Entries

-
- a) When the credit union executes and delivers a note payable to others:

Dr.-Cash (Acct. No. 731)	\$3,000.00
Cr.- Notes Payable - Other (Acct. No. 812)	\$3,000.00

- b) To record principal and interest payments made to liquidate notes payable:

Dr.-Notes Payable - Other (Acct. No. 812)	\$1,000.00
Dr.-Interest on Borrowed Money (Acct. No. 340)	30.00
Cr.-Cash (Acct. No. 731)	\$1,030.00

- c) When the credit union borrows money on its note and interest is deducted in advance by the creditor (1-year note at 10 percent):

Dr.-Cash (Acct. No. 731)	\$900.00
Dr.-Interest on Borrowed Money (Acct. No. 340)	100.00
Cr.- Notes Payable - Other (Acct. No. 812)	\$1,000.00

Detailed Transactions

Credit:

- a) With principal amounts of notes payable issued.

Debit:

- a) With principal repayments made to liquidate notes payable.

ACCRUAL BASIS OF ACCOUNTING

Credit unions following the accrual basis should record interest expense accrued on notes payable by a debit to “Interest on Borrowed Money”, (Account No. 340), and credit to “Accrued Interest Payable”, (Account No. 818). When payments are made, the interest portion should be debited to “Accrued Interest Payable” (Account No. 818) instead of to “Interest on Borrowed Money”, (Account No. 340).

812.1-NOTES PAYABLE COMMITMENT FEES

This account should reflect commitment fees paid on term notes. The fees should be amortized based on the interest method. The periodic amortization should be recorded as interest on borrowed funds. See Account No. 703.1 for a detailed discussion of the interest method.

813-FEDERAL FUNDS PAYABLE

This account is used to record borrowed Federal Funds. Federal-fund loans consist of 1-day loans that are in the form of balances at (or checks drawn on) Federal Reserve banks. They are loans of superior money or bank reserves, as compared to the ordinary money or deposits at commercial banks. A credit union’s management must be willing, however, to meet the interest rates determined each day by the Federal Funds market.

Total borrowings must not exceed 50 percent of the federal credit union’s paid-in and unimpaired capital (Section 107(9) of the Federal Credit Union Act).

Entries in the Journal and Cash Record

This account is credited in the “Miscellaneous-Credit” column with the amount of notes payable which have been executed and delivered to creditors, including notes to other credit unions. The account is debited in the “Miscellaneous-Debit” column when the liability is wholly or partially liquidated.

Posting to the General Ledger

The debit and credit items to this account entered in the “Miscellaneous” columns in the Journal and Cash Record are posted individually to the General Ledger. Each borrowing and any payments thereon should be specifically identified in the “Explanatory Remarks” column.

Illustrative Entries

- a) To record borrowed Fed Funds:

Dr.-Cash (Acct. No. 731)	\$50,000
Cr. - Fed Funds Payable (Acct. No. 813)	\$50,000

- b) To record the repayment of borrowed Fed Funds and one day's interest @ 10%:

Dr.-Fed Funds Payable (Acct. No. 813)	\$50,000.00
Dr.-Other Interest on Borrowed Money (Acct. No. 342)	13.70
Cr.-Cash (Acct. No. 731)	\$50,013.70

Detailed Transactions

Credit:

- a) With Principal amounts of notes payable issued.

Debit:

- a) With principal repayments made to liquidate notes payable.

818-ACCRUED INTEREST PAYABLE

For credit unions following the accrual basis of accounting, this account reflects the accrued unpaid liability of the credit union for interest on borrowed funds. The account is not required for credit unions following the modified cash basis of accounting.

Accruals should be recorded at the close of each accrual period to reflect the interest cost for the period on borrowed funds. When interest payments are made, the amounts paid should be debited to this account and credited to "Cash", (Account No. 731). Interest should be computed on borrowed funds based on the loan interest rate applied to the unpaid principal amounts of the loan liability outstanding during the accrual period. This accrual may be accomplished by applying an appropriate interest factor to the aggregate daily balances of principal outstanding at each effective interest rate.

Entries in the Journal and Cash Record

All entries affecting this account should be entered in the “Miscellaneous” columns of the Journal and Cash Record.

Illustrative Entries

-
- a) To accrue interest liability at the close of each accrual period:

Dr.-Interest on Borrowed	
Money (Acct. No. 340)	\$100.00
Cr.-Accrued Interest Payable	
(Acct. No. 818)	\$100.00

- b) When interest is paid:

Dr.-Accrued Interest Payable	
(Acct. No. 818)	\$300.00
Cr.-Cash (Acct. No. 731)	\$300.00

Detailed Transactions

Credit:

- a) With interest accrued during the accrual period.

Debit:

- a) With interest payments made.

820-DIVIDENDS PAYABLE

820.1-DIVIDENDS PAYABLE ON REGULAR SHARES

820.2-DIVIDENDS PAYABLE ON SHARE DRAFTS

820.3-DIVIDENDS PAYABLE ON CLUB ACCOUNTS

820.4-DIVIDENDS PAYABLE ON IRA/KEOGH SHARE ACCOUNTS

820.5-DIVIDENDS PAYABLE ON IRA/KEOGH CERTIFICATE ACCOUNTS

820.6-DIVIDENDS PAYABLE ON SHARE CERTIFICATES

820.7-DIVIDENDS PAYABLE ON MONEY MARKET ACCOUNTS

820.8-DIVIDENDS PAYABLE ON OTHER ACCOUNTS

Under Article XIV, Dividends, of the standard Federal Credit Union Bylaws, the board of directors is authorized to establish dividend periods and declare dividends permitted by the Federal Credit Union Act, as amended. The dividend periods must be established so that the last dividend period in any calendar year ends on December 31, unless the cost of dividends is accrued by debiting "Dividends", (Account No. 380) and crediting "Accrued Dividends Payable", (Account No. 854). Dividends may be declared by the board for an established dividend period, from Earnings available after provision for reserves required by the Act and regulations, and after eliminating any existing deficit in undivided Earnings. Dividends may be declared only during the last month of the dividend period or the first month following the close of the period. However, if the dividend period is monthly, dividends may be declared during the month. If the dividend period is more frequent than monthly, the board may declare the dividend during the previous month. See Section 5160 regarding dividend and interest computation procedures.

All dividend declarations shall include the establishment of a date on which such declared dividends will be distributed or posted to the accounts of the members.

Under the requirement that dividends be shown as an element of expense in Statements of Income, it is most important that dividends be recorded as current changes of the fiscal period to which they apply. Thus, when dividends are declared by the board during the first month following the close of the dividend period, they should be recorded as of the close of the applicable dividend period by debit to "Dividends", (Account No. 380) and credit to this Account No. 820. Also, of course, dividends declared in the last month of the dividend period should be recorded in the same manner. The dividends will thus be shown on the Statement of Income prepared for the dividend period to which they apply.

When the dividends liability credited to this account is liquidated, this account should be debited and the offsetting credit should be to "Cash", (Account No. 731), or to the 900 series share accounts.

This account should be used only at the end of dividend periods to reflect the actual or estimated amount of a dividend which is due and payable to the members. Credit unions which accrue dividend expenses on a more frequent basis than the actual dividend period should record the liability in "Accrued Dividends Payable", (Account No. 854). For example, a credit union which declares and pays quarterly dividends but accrues dividend expense monthly would record the liability in Account No. 854 in between actual dividend periods. On financial statements for those months at the end of each dividend period (March, June, September and December) the liability should be transferred from Account No. 854 to this account (Dividends Payable) in those cases where the dividend is not credited to members' accounts until the month following the end of the dividend period. Where the dividend is credited to members' accounts on the last day of the dividend period, the entry should be a debit to Account No. 854 and a credit to "Shares", (Account No. 901) and the financial report for the end of the quarter should have no balance in either Account No. 820 or Account No. 854.

Computation and Distribution of Dividends

The methods for computing dividends applicable to each member and distributing the dividends are explained in Section 5160.

Additional References:

Section 2060.3, contains additional information concerning dividends.

Section 4050.2, explains the dividend expense accounts (380 series)

Entries in the Journal and Cash Record

All entries affecting these accounts should be recorded in the “miscellaneous” columns of the Journal and Cash Record.

Illustrative Entries

-
- a) To record the estimated dividend liability for the months of July, August and September when the credit union is on a quarterly dividend period and dividends are credited to members’ accounts on the first day of the next dividend period, assuming one class of shares. The following entries would be made at the end of each month::

Dr.-Dividend Expense	
Money (Acct. No. 380)	\$1,000
Cr.-Accrued Dividends Payable	
(Acct. No. 854)	\$1,000

The balance of Account No. 854 would then be \$3,000.00 at the end of September.

- b) When the dividend is distributed to members’ accounts on September 30, and the actual amount of the dividend is \$2,900:

Dr.-Accrued Dividends Payable	
(Acct. No. 854)	\$3,000.00
Cr.-Shares (Acct. No. 901)	\$2,900.00
Cr.-Dividends Expense (Acct. No. 380)	100.00

- c) Same example as (a.) above, except that dividends are credited to members’ accounts on the first day following the end of the dividend period:

Entries for each month would be the same as (a.) above.

- d) To record the dividend payable as of September 30 for example (c.) above:

Dr.-Accrued Dividends Payable	
(Acct. No. 854)	\$3,000.00
Cr.-Dividends Payable	
(Acct. No. 820)	\$3,000

- e) When dividend for (c.) and (d.) above is credited to members' accounts on October 1, and the actual dividend amounts to \$2,900.00:

Dr.-Dividend Payable	
(Acct. No. 820)	\$3,000.00
Cr.-Shares (Acct. No. 901)	\$2,900.00
Cr.-Dividends Expense (Acct. No. 380)	100.00

Detailed Transactions

Credit:

- a) To record the amount of dividends either declared or estimated during an accounting period.
- b) With the excess of actual dividends, if any, over the amount previously recorded.

Debit:

- a) To liquidate the amount of dividend liability upon distribution to the shareholder.
- b) With the amount or difference, if any, between the accrued amount and the actual amount of dividends payable.

830-INTEREST REFUNDS PAYABLE

Section 701.24 of the NCUA's Rules and Regulations for federal credit unions sets forth the authority for federal credit unions to refund interest to members. Under the requirements of 701.24(g), interest refunds should be shown as a reduction of interest income on the credit union's books. Also, on the credit union's Statement of Income, interest refunds should be recorded as current changes in the fiscal period to which they apply. Thus, when interest refunds are declared by the board during the first month following the close of the dividend period, they should be recorded as of the close of the dividend period by a debit to "Interests Refunds", (Account No. 119), and credit to "Interest Refunds Payable", (Account No. 830).

Interest refunds declared in the last month of the dividend period should be recorded in the same manner. The interest refunds thus will be shown on the Statement of Income prepared at the close of the period to which they apply. When the interest refunds liability credited to this account is liquidated, this account should be debited and the offsetting credit should be to "Shares" (Account No. 901) or "Cash", (Account No. 731).

Computation and Distribution of Interest Refunds

The method of computing interest refunds applicable to each member and related procedures are explained in Section 5070.2.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the “Miscellaneous” columns of the Journal and Cash Record.

Illustrative Entries

-
- a) To record interest refunds declared:

Dr.-Interest Refunds	
(Acct. No. 119)	\$750.00
Cr.-Interest Refunds Payable	
(Acct. No. 830)	\$750.00

- b) To record the liquidation of the interest refunds liability by credits to shares and by cash payments:

Dr.-Interest Refunds Payable	
(Acct. No. 830)	\$750.00
Cr.-Shares (Acct. No. 901)	\$625.00
Cr.-Cash (Acct. No. 731)	125.00

NOTE: When the amount recorded as an interest refund liability was based on an estimate, the difference between the total actual amount and the estimate originally recorded will require an adjusting entry. If the total actual distribution exceeded the estimate, the difference should be charged as of the liquidation date to “Interest Refunds”, (Account No. 119), and credited to “Interest Refunds Payable”, (Account No. 830). If the estimate exceeded the total actual amount distributed, the reverse entry should be made as of the liquidation date, debiting the difference to Account No. 830 and crediting Account 119.

Detailed Transactions

Credit:

- a) To record the amount of interest refunds declared.
- b) For the excess, if any, of actual interest refunds distributed at the authorized rate over the amount recorded in the credit entry above.

Debit:

- a) To record the amount of interest refunds distributed to members.
- b) For the excess, if any, of interest refunds recorded in the entry above, over the actual interest refunds distributed to members based on the authorized rate.

840-TAXES PAYABLE

841-FEDERAL WITHHOLDING TAXES PAYABLE

842-STATE WITHHOLDING TAXES PAYABLE

845-CITY WITHHOLDING TAXES PAYABLE

Federal credit unions that pay salaries are subject to the withholding provisions of the law relating to federal, state, and local income taxes. If salaries are paid it is essential that the proper forms be obtained from each employee and kept on file. If any taxes are required to be withheld, the instructions issued by the Internal Revenue Service or other taxing authority for reporting and remitting taxes should be carefully followed. The necessary forms and instructions should be obtained from the local Director of Internal Revenue or other taxing authority.

Many states and cities have provisions in their tax laws for the withholding of income taxes similar to the federal income tax law. In these instances, forms and instructions should be obtained from the local tax officials. Where a credit union has employees for which it withholds state or city income taxes residing in more than one state, additional accounts for State Withholding Taxes Payable should be established using Account Nos. 843 and 844, as required. Account Nos. 841 through 845 should reflect the credit union's liability for income taxes withheld.

Each time salaries are paid, the amount of income tax withheld from the salary is credited to this account in the "Miscellaneous Credit" column of the Journal and Cash Record. The account is debited in the "Miscellaneous Debit" column when the amounts withheld are remitted in accordance with instructions. If the credits to this account are numerous, it is suggested that one (or more) of the blank columns of the Journal and Cash Record or the continuation sheet be used to accumulate these entries. If this is done the column(s) should be headed "Federal Withholding Taxes Payable-Cr-" (if state or city taxes are involved the column(s) should be appropriately labeled).

Employees Withholding Exemption Certificate (Form W-4)

At the time the treasurer takes office or an employee is hired, an Employee Withholding Exemption Certificate (Form W-4) should be obtained. Blank copies of Form W-4 may be secured from the local Director of Internal Revenue. This certificate, which should be signed by the employee involved, should indicate the exemptions he is claiming. The deductions made from his salary will be governed by his exemptions. Employees Withholding Exemption Certificates (Form W-4) for each employee should be retained in the files of the credit union. The appropriate Withholding Exemption Certificate should be obtained when state or city income taxes are withheld.

Posting to the General Ledger

The items entered in the "Miscellaneous" columns are posted individually to the General Ledger. In the event one (or more) of the blank Journal and Cash Record columns is used, the total of this column(s) is posted as a credit to the General Ledger at the end of the month.

FIGURE 4-5: Illustration of a Suggested Individual Payroll Ledger

<div style="text-align: center;"> <p>FEDERAL CREDIT UNION</p> <p>INDIVIDUAL PAYROLL LEDGER</p> </div> <div style="margin-top: 10px;"> <p>Name of Employee _____ Social Security No. _____</p> <p>Withholding Status _____</p> <p>State of Residence _____</p> </div>											
Payroll Date	Hours Worked		Gross Salary	Deductions					Net Salary	Employer Social Security Tax	Date Tax Remitted Dir. Int. Rev.
	Regular	Overtime		Employee Soc. Sec. Tax	Federal Withholding Tax	State Withholding Tax	Savings Bonds	Credit Union			

Illustrative Entries

- a) When salaries are paid and social security and federal income taxes are withheld:

Dr.-Salaries (Acct. No. 211)	\$100.00
Cr.-Cash (Acct. No. 731)	\$86.37
Cr.-Federal Withholding Taxes	
Payable (Acct. No. 841)	10.00
Cr.-Social Security Taxes	
Payable (Acct. No. 846)	3.63

- b) When federal taxes withheld are remitted in accordance with instructions of the Internal Revenue Service, together with employer's social security tax:

Dr.-Federal Withholding Taxes	
Payable (Acct. No. 841)	\$30.00
Dr.-Social Security Taxes	
Payable (Acct. No. 846)	21.78
Cr.-Cash (Acct. No. 731)	\$51.78

Detailed Transactions

Credit:

- a) With amount of income taxes withheld.

Debit:

- a) With amount of income taxes remitted to the federal, state or city tax authorities, as applicable for each account.

846-SOCIAL SECURITY TAXES PAYABLE

Federal credit unions are required to withhold social security taxes on certain salaries paid. Information as to the specific requirements and procedures, including the rates currently in effect, can be obtained from the nearest field office of the Social Security Administration or the local Director of Internal Revenue.

Deductions, according to the current rate, should be made from salaries and should be accumulated in "Social Security Taxes Payable", (Account No. 846). Remittances of these deductions, together with the proper amount to cover the employer's (credit union's) tax, should be made in accordance with the instructions. Both the employees' deductions and the credit union's tax liability should be set up in the Social Security Taxes Payable each time salaries are paid. The credit union should apply to the local Director of Internal Revenue for an employer's identification number on Form SS-4. Forms on which to make this application as well as report forms and instructions regarding their use will be supplied by the local Director upon request. The credit union must have a record of the Social Security account numbers of its employees. Any employee who does not have a number should obtain one by applying for the social security number on Form SS-4 at the nearest Social Security Field Office.

A suggested form of individual payroll ledger sheet is illustrated above. This form will help maintain control over both the employee's and employer's social security taxes, as well as deductions or withholdings made from the employee's salary for federal income tax, savings bonds, credit union, etc.

Entries in the Journal and Cash Record

When salaries are paid, the amount of social security tax required is withheld from the salary due each qualifying employee and credited to this account in the "Miscellaneous-Credit" column of the Journal and Cash Record. At the same time, the employer's (credit union's) social security tax on such salaries is charged to "Social Security Taxes (Employer's Share)", (Account No. 222) and credited to this account in the "Miscellaneous Credit" column. When the remittance is made, this account is debited in the "Miscellaneous-Debit" column.

If the credits to this account are numerous, it is suggested that one of the blank columns of the Journal and Cash Record or the continuation sheet be used to accumulate these entries. If this is done, the column should be headed "Social Security Taxes Payable-Cr."

Posting to the General Ledger

The items entered in the "Miscellaneous" columns are posted individually to the General Ledger. In the event one of the blank Journal and Cash Record columns is used, the total of this column should be posted as a credit to the General Ledger at the end of the month.

Illustrative Entries

-
- a) When salaries are paid and social security and income taxes are withheld for later remittance to the Director of Internal Revenue:

Dr.-Salaries (Acct. No. 211)	\$100.00
Cr.-Cash (Acct. No. 731)	\$86.37
Cr.-Federal Withholding Taxes Payable (Acct. No. 841)	10.00
Cr.-Social Security Taxes Payable (Acct. No. 846)	3.63

- b) When salaries are paid, liability for the credit union's portion of social security tax is recorded:

Dr.-Social Security Taxes (Employer's Share) (Acct. No. 222)	\$3.63
Cr.-Social Security Taxes Payable (Acct. No. 846)	\$3.63

- c) When taxes withheld from salaries are remitted to the Director of Internal Revenue together with employer's social security tax:

Dr.-Federal Withholding Taxes Payable (Acct. No. 841)	\$30.00
Dr.-Social Security Taxes Payable (Acct. No. 846)	21.78
Cr.-Cash (Acct. No. 731)	\$51.78

NOTE: When income tax withholdings affect state or city income taxes all entries should be recorded similar to the credits and debits to Account No. 846, as shown in the first and third entries above, except that the appropriate account number in the series 842 through 845 should be credited or debited.

Detailed Transactions

Credit:

- a) With amounts of social security taxes withheld from employees' salaries.

- b) With the credit union's share of social security taxes charged to expense "Social Security Taxes (Employer's Share)", (Account No. 222).

Debit:

- a) With amount of social security taxes paid (Employees' and Employer's Shares).

847-FEDERAL UNEMPLOYMENT COMPENSATION TAX PAYABLE

848-STATE UNEMPLOYMENT COMPENSATION TAX PAYABLE

These two accounts reflect the amounts of the credit union's unpaid liabilities for federal and state unemployment compensation taxes payable.

The Federal Unemployment Tax Act imposes a tax on employers who employ one or more persons in covered employment on at least one day in each of 20 weeks during the current or preceding calendar year, or who paid wages of at least \$1,500 in a calendar quarter in the current or preceding calendar year.

Unemployment compensation insurance coverage is applicable to practically all federal credit unions. Amounts paid for Unemployment Compensation Insurance are expenses to the credit union and are recorded when the liabilities are incurred.

In most states, the full tax is paid by the employer (credit union), however, in a few states the employees also contribute by a deduction from the wages. In these cases, the accounting treatment for Unemployment Compensation Insurance will be similar to that for social security taxes payable as described in Account No. 846.

Report forms and instructions should be obtained from the State Employment Security Agency (State Tax) and Internal Revenue Service (Federal Tax).

Entries in the Journal and Cash Record

Expenses for Unemployment Compensation Insurance may be recorded when paid. However, the expense and the liability may be recorded on a monthly basis for more accurate financial reporting. This can be done by computing the expense monthly and charging it to "Unemployment Compensation Taxes", (Account No. 223), with a corresponding credit to Account Nos. 847 or 848, as appropriate. The expense is computed by applying the required percentage to taxable wages during this month.

Postings to the General Ledger

The items entered in the "Miscellaneous" columns are posted individually to the General Ledger. In the event one of the blank Journal and Cash Record columns is used, the total of this column should be posted as a credit to this account in the General Ledger at the end of the month.

Illustrative Entries

- a) At the end of the month when the liability is recorded for unemployment compensation taxes:

Dr.-Unemployment Compensation	
Taxes (Acct. No. 223)	\$6.00
Cr.-Federal Unemployment	
Compensation Tax Payable	
(Acct. No. 847)	\$2.00
Cr.-State Unemployment	
Compensation Tax Payable	
(Acct. No. 848)	4.00

- b) When taxes are remitted to State Employment Security Agency:

Dr.-State Unemployment	
Compensation Tax Payable	
(Acct. No. 848)	\$4.00
Cr.-Cash (Acct. No. 731)	\$4.00

Detailed Transactions

Credit:

- a) With amount for unemployment taxes charged to "Unemployment Compensation Taxes", (Account No. 223).

Debit:

- a) With remittances made to pay the total liability for unemployment taxes to the respective taxing authorities.

849-OTHER TAXES PAYABLE

This account reflects the current liability of the credit union for miscellaneous taxes due but unpaid, including real estate taxes, personal property taxes, etc.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record

Illustrative Entries

- a) To record the liability for real estate taxes which have become due and payable:

Dr. -Real Estate Taxes	
(Acct. No. 256)	\$500.00
Cr. -Other Taxes Payable	
(Acct. No. 849)	\$500.00

- b) To record payment of taxes for which a liability has been established in this account:

Dr. -Other Taxes Payable	
(Acct. No. 849)	\$500.00
Cr. -Cash (Acct. No. 731)	\$500.00

Detailed Transactions

Credit:

- a) With the actual liability for miscellaneous unpaid taxes with an offsetting charge to the appropriate operating expense account.

Debit:

- a) With miscellaneous taxes previously credited to this account when paid.

850-ACCRUED EXPENSES

Account Numbers 851 through 859 are used to record liabilities for accrued expenses. Amounts recorded in these accounts are not yet due but are so recorded to allocate the expense to the period incurred. The use of the accrual basis of accounting is preferred because it matches expenses to the period incurred, rather than when paid, and income is recorded in the period earned, rather than when received. Even those credit unions using the modified cash basis of accounting should accrue for those expenses that would significantly distort the Statement of Income if they were recorded on the cash basis.

851-ACCRUED SALARIES

The amount of salaries earned but not yet paid may, if material in amount, be recorded in Account 851, "Accrued Salaries", with offsetting charges to the appropriate expense classifications (Account Nos. 211, 222, 223). This accrued liability would be applicable, for example, where salaries are paid on a biweekly basis and the pay period overlaps at month end.

852-ACCRUED EMPLOYEE BENEFITS

When expenses for employee benefits are material in amount, the cost may be accrued by periodic charges to expenses each accrual period with an offsetting credit to “Accrued Employee Benefits”, (Account No. 852). An example might be the cost of employee group life insurance where payments of the expense are made at times not conforming to the accrual periods adopted by the credit union.

Accounting for Compensated Absences

A credit union, acting as an employer, should accrue the amount of its liability for employees’ compensation of future absences. The accrual need not include compensated leave that would be used in the current calendar year. The accrual should be made when all of the following conditions exist:

- a) The credit union is obligated for compensation that is attributable to services that have already been provided by its employees, such as an accumulation of “annual leave”;
- b) The credit union has an obligation to make payment for the accrued leave or rights to compensation, even though an employee terminates;
- c) Payment of the accrued compensation is probable; and
- d) The amount can be reasonably estimated.

853-ACCRUED COST OF SPACE OCCUPIED

When the credit union owns its building, the expense for real estate taxes may be accrued periodically by changes to Account No. 256 and credit to “Accrued Cost of Space Occupied”, (Account No. 853). Other periodic costs relating to space may be significant and may justify recognition as expenses in each accrual period by periodic charges to expense and credits to Account No. 853.

854-ACCRUED DIVIDENDS PAYABLE

The cost of funds is a material expense for credit unions and should be accrued by periodic changes to expense each accrual period. The accrued expense for dividends should be recorded as a debit to “Dividends”, (Account No. 380) and as a credit to “Accrued Dividends Payable”, (Account No. 854). Dividends that have been declared and are payable should be recorded by a debit to “Accrued Dividends Payable”, (Account No. 854) and a credit to “Dividends Payable”, (Account No. 820). See Illustrative Entries under Account No. 820.

855-ACCRUED ACCOUNTING SERVICE COST

This account is used to record unpaid expenses for accounting services that are provided by an outside person or firm. It should also be used to record unpaid expenses incurred in conjunction with a jointly owned accounting service center. The accrual may be necessary if the payment is not remitted to the processor until the middle of the subsequent month. It may also be u@ to accrue the cost of issuing members’ quarterly statements so that the costs are evenly distributed during the accounting period.

The illustrative entries, entries in the Journal and Cash Record, and the detailed transactions will be similar to those for “Other Accrued Expenses”, (Account No. 859), therefore, reference should be made to that account.

856-ACCRUED LOSS CONTINGENCIES

This account is used to accrue a loss from a loss contingency when both of the following conditions exist:

- a) It is probable that an asset has been impaired or a liability has been incurred; and
- b) The amount of the loss can be reasonably estimated.

A loss contingency is defined as an existing condition, situation, or group of circumstances that involve uncertainty as to possible gain or loss to a credit union. It is resolved when one or more future events takes place or fails to occur. When the uncertainty is removed, it may confirm the purchase of an asset or the reduction of a liability or the incidence of a loss, impairment of an asset, or a liability. Examples of such contingencies would be:

- a) Pending or threatened litigation;
- b) Guarantees of indebtedness to others;
- c) Risk of loss or damage to credit union property by fire, explosion, flood, or other hazards which are not insurable;
- d) Agreements to repurchase loans, property, or other receivables that have been sold;
- e) Obligations of credit unions under standby letters of credit; and
- f) Actual possible claims and assessments.

Entries in the Journal and Cash Record

The entries to this account are recorded in the “Miscellaneous” columns of the Journal and Cash Record. The offsetting changes to expenses should be recorded in the separate column designated for operating expense debits.

Illustrative Entries

- a) To record an accrual for a loss contingency that will result from uninsured medical expenses of a credit union member. The member fell on the icy outside steps of the credit union office and has filed a lawsuit against the credit union to recover medical expenses. The credit union's attorney believes that the credit union will incur the loss. The credit union's uninsured portion of the loss will be \$10,000. The court case is expected to be finalized in three months. The entry to record estimable or probable loss would be:

Dr.-Miscellaneous Operating Expenses (Acct. No. 370)	\$10,000
Cr.-Accrued Losses Contingencies (Acct. No. 856)	\$10,000

The above entry would be made as of the balance sheet date.

Detail Transactions

Credit:

- a) With amounts of periodic changes to expenses representing unpaid costs in order to allocate such costs over the period to which they apply.

Debit:

- a) With the amounts recorded to this account when the losses are paid; adjustments to the accrual amounts should be charged or credited as applicable to this account and the appropriate expense account.

859-OTHER ACCRUED EXPENSES

When a credit union has other types of unpaid expenses of material amounts that should be spread over several accrual periods, they may be allocated to expense in the periods to which they apply with an offsetting credit to "Other Accrued Expense", (Account No. 859).

Entries in the Journal and Cash Record

The entries to these accounts should be made in the "Miscellaneous" columns of the Journal and Cash Record. The offsetting charges to expenses when the accruals are established should be in the separate column designated for operating expense debits.

Illustrative Entries

- a) To establish the accrual for salaries unpaid at period end:

Dr.-Salaries (Acct. No. 211)	\$300.00
Dr.-Social Security Taxes (Employer's Share) (Acct. No. 222)	7.50
Cr.-Accrued Salaries (Acct. No. 851)	\$307.50

- b) To charge real estate taxes to expense monthly during the year based on an annual estimated cost of \$600.00:

Dr.-Real Estate Taxes (Acct. No. 256)	\$50.00
Cr.-Accrued cost of Space Occupied (Acct. No. 853)	\$50.00

Detailed Transactions

Credit:

- a) With amounts of periodic charges to expense representing unpaid costs in order to allocate such costs over the period to which they apply.

Debit:

- a) With amounts recorded in these accounts when the actual expenses are paid. Adjustments to record differences between the accrual amounts and the actual amounts should be charged or credited, as applicable, to current operating expenses.

860-OTHER LIABILITIES

This account reflects miscellaneous liabilities of the credit union for which no specific general ledger account is provided.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Postings to General Ledger

Postings should be made currently as transactions occur to the General Ledger Account. The nature of the liability and the identification of the person or organization to whom the liability is owed and an explanation of all liquidating entries should be written in the “Explanatory Remarks” column of the General Ledger account.

861-LIABILITY UNDER PENSION COST

This account is used to record an accumulated pension liability that occurs when post service pension costs are amortized over a period that is less than the funding period. The liability is eventually eliminated as payments are made to the funding agency following the end of amortization period. Refer to Section 6000 for illustrative Journal and Cash Record entries and a further explanation as to how this account is used.

862-COLLECTIONS ON LOANS AND OTHER OBLIGATIONS SERVICED

When loans are sold to a purchaser and the selling credit union continues to service the sold loans, this account is used to record the collections that are due the purchaser. The activity in this General Ledger account is based on the servicing report that is prepared by the selling credit union. Refer to Section 6000 for a discussion and an illustrative Journal and Cash Record entry for the use of this account.

863-OBLIGATIONS UNDER CAPITAL LEASES

This account is used to record the liability that arises from a lease that is classified as a capital lease. In general, a lease that transfers substantially all the benefits and risks inherent in the ownership of property qualifies as a capital lease. Such leases should be accounted for by the lessee as the acquisition of an asset and the incidence of a liability.

References:

Section 6000 for illustrative journal entries.

864-MONETARY CONTROL PASS DEPOSITS

This account is used to record a corporate central federal credit union’s liability to another credit union for that credit union’s monetary reserves that are maintained to comply with Regulation D. In order for a corporate central federal credit union to qualify for such a pass-through arrangement, it must maintain its own reserves or qualify for a banker’s bank exemption.

Illustrative Entries

- a) To record ZYX Corporate Central Federal Credit Union's liability for ABC Federal Credit Union's required Regulation D deposit:

Dr.-Cash (Acct. No. 731)	\$15,000
Cr.-Monetary Control Pass- Through Deposits ABC Federal Credit Union (Acct. No. 864)	\$15,000

- b) To reduce the amount that ABC Federal Credit Union must retain on deposit in the subsequent month:

Dr.-Monetary Control Pass- Through Deposits ABC Federal Credit Union (Acct. No. 864)	\$5,000
Cr.-Cash (Acct. No. 731)	\$5,000

865-MAIN OFFICE

When a credit union maintains branch offices, this account is credited by the branch for all purchases, cash, or other funds provided by the main office. It should be debited for all cash, purchases, or other funds sent by the branch to the main office or other branches. The account is shown in the liability section of the branch's Statement of Financial Condition (FCU 109A). The account shows the main office's net investment in the branch. Refer to the Illustrative Entries in Section 6000.

866-UNDISBURSED LOAN PROCEEDS

This account is used to record the proceeds of loans that have been recorded on the credit union's records, but not yet disbursed.

867-SUBORDINATED CDCU DEBT

This account is used to record the declining scale for its corresponding capital account, Account 925, "Uninsured Secondary Capital." For more information and illustrative entries related to this account, see Account 925, "Uninsured Secondary Capital."

869-OTHER LIABILITIES

This account is used to record other liabilities that are not recorded in account numbers 861.0 through 866.

References:

Section 2020.10, Accounting Basis; Section 2050.1.7.1, Accrued Dividends; Section 2070.2.3, Accrued Expenses; Section 4030.2.6, Accrued Expenses; Section 4050.5, Liability Accounts.

870-UNAPPLIED DATA PROCESSING EXCEPTIONS

The accounts in this series (870-872) are provided for credit unions using computers for the processing of accounting transactions. The accounts are used to show the amount of unprocessed transactions rejected by the computer because of error or invalid input data. Examples are transactions bearing incorrect account numbers or names, an incorrect transaction date, a transaction designated as a loan repayment when no outstanding loan to the member is contained in the computer files, etc.

Two accounts are provided in this series for processing exceptions relating to receipt and disbursement transactions, respectively. As an alternative both unapplied disbursements may be recorded in one account (Account No. 870). Exceptions must be corrected and submitted promptly for posting after a listing of exceptions has been received.

871-UNAPPLIED DATA PROCESSING EXCEPTIONS (RECEIPTS)

This account reflects amounts of transactions rejected by the computer representing receipts which have not yet been applied. When the credit union receives an exception listing, an adjusting entry should be recorded in the Journal and Cash Record. The amount of unapplied receipts should be entered in the Journal and Cash Record as a credit to Account No. 871. The offsetting debit should be to the account(s) to which the rejected transactions were originally credited, which in some cases could be to the "Undistributed" accounts under "Accounts Payable", (Account No. 800).

When the unapplied exception is corrected, the adjustments made upon receipt of the exception listing should be reversed in the Journal and Cash Record as of the date of resubmittal to the computer.

Entries in the Journal and Cash Record

All entries to this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record unless the credit union establishes separate columns for such transactions because of the volume of debits and credits affecting this account.

Illustrative Entries

-
- a) Upon receipt of an exception showing unapplied collections:

Dr.-Loans (Acct. No. 701)	\$1,400.00
Dr.-Interest on Loans	
(Acct. No. 111)	45.00
Cr.-Unapplied Data Processing	
Exceptions (Receipts)	
(Acct. No. 871)	\$1,445.00

NOTE: If the credit union credits items sent to the computer for processing to an “Undistributed” account in the Accounts Payable (800) series, the debit above would be to that account.

- b) When exceptions are corrected and resubmitted to the computer, the entry shown above should be reversed.

Detailed Transactions

Credit:

- a) With amounts of unprocessed receipt transactions rejected by the computer and shown on exception listings.

Debit:

- a) With amounts of rejected receipt transactions resubmitted to the computer for processing.

872-UNAPPLIED DATA PROCESSING EXCEPTIONS (DISBURSEMENTS)

This account is used to record disbursement transactions that were rejected by the computer. When the credit union receives an exception listing, this account, No. 872, is debited and the offsetting credit goes to reverse the original entry or entries. When the unapplied exceptions are corrected, which should be timely, the entries made above should be reversed as of the date resubmitted to the computer.

Entries in the Journal and Cash Record

All entries to this account should be recorded in the “Miscellaneous” columns of the Journal and Cash Record unless the credit union establishes separate column(s) for such transactions because of the volume of transactions affecting this account.

Illustrative Entries

-
- a) Upon receipt of an exception listing showing unapplied disbursements:

Dr.-Unapplied Data Processing	
Exceptions (Disbursements)	
(Acct. No. 872)	\$310.00
Cr.-Loans (Acct. No. 701)	\$250.00
Cr.-Shares (Acct. No. 901)	60.00

- b) When exceptions are corrected and resubmitted to the computer, the entry shown above should be reversed.
-

Detailed Transactions

Debit:

- a) With amounts of unprocessed disbursement transactions rejected by the computer and shown on exception listings.

Credit:

- a) With amounts of rejected disbursements transactions resubmitted to the computer for processing.

880-DEFERRED CREDITS

This account is the counterpart to deferred charges, and accordingly, is used to carry forward to future accounting periods such items as income received but not yet earned and deferred gains on the disposition of assets.

881-UNEARNED INTEREST ON LOANS

This account represents the balance of discounts established as deferred income when FHA Title I Property Improvement Loans are disbursed by credit unions if the credit union elects to follow FHA policies and procedures in handling such loans. The account should not be used by credit unions electing to provide for the application of an interest rate on the unpaid balance of Title I FHA loans in the conventional credit union manner.

Federal credit unions desiring to do so may adopt the FHA “discount” or “add-on” method for Title I loans. Under this method, the entry to record disbursement of the loan would be as follows (\$1,000 disbursed on “\$5 discount per \$100”, loan payable in 24 equal monthly installments):

Dr.-Loans (Acct. No. 701)	\$1,101.2
Cr.-Cash (Acct. No. 731)	\$1,000.00
Cr.-Unearned Interest on Loans (Acct. No. 881)	101.22

This account should be adjusted for the following basic conditions, although other adjustments may be needed as circumstances dictate:

- a) Periodic transfers, generally monthly, to “Interest on Loans”, (Account No. 1 1 1) to record earned interest. Any reasonable and logical method of recording earned interest may be used provided it is based on loan payments received, as opposed to loan payments that should have been received. It would be best if the transfer were based on a computation applied to each Title I loan individually, but if a federal credit union has numerous Title I loans, the earned interest may be computed by grouping all Title I loans. In such a case the federal credit union should keep in mind that if interest refunds are to be made, the earned interest should be recorded individually for each borrower.

- b) Prepayment of the loan. Federal credit unions must make a rebate to the extent of the full unearned interest.
- c) Charge off of the loan. The unearned interest should be adjusted in both General Ledger Account No. 881 and the individual loan account. The amount that should then be charged off will be the amount remaining in the individual loan account after applying the amount of the interest collected.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

- a) For recording original transaction for disbursing an FHA Title I loan:

Dr.-Loans (Acct. No. 701)	\$1,101.22
Cr.-Cash (Acct. No. 731)	\$1,000.00
Cr.-Unearned Interest on Loans (Acct. No. 881)	101.22

- b) For transferring unearned interest to income as the interest is earned:

Dr.-Unearned Interest on Loans (Acct. No. 881)	\$10.00
Cr.-Interest on Loans (Acct. No. 111)	\$10.00

Detailed Transactions

Credit:

- a) With amounts of unearned interest on FHA loans when loans are disbursed.

Debit:

- a) Periodically as interest on FHA loans is earned, with amount transferred to "Interest on Loans", (Account No. 111).
- b) With refunds of unearned interest in the case on loan repayments.
- c) With unearned interest when a loan is charged off; transfer to "Loans", (Account No. 701), and charge off the net unpaid balance to "Allowance for Loan Losses", (Account No. 719).

882-DEFERRED CREDITS-INSURANCE PREMIUM REBATE

This account represents the amount of dividends on life savings and borrowers' protection insurance applicable to future periods.

When credit union life savings and borrowers' protection insurance policies provide for the payment of dividends at the discretion of the insurance company based on prior years' premiums, the period that benefits is the year after the dividends are earned (i.e., the year in which the dividends are actually received). Since the entire year benefits, it is logical to reason that each of the remaining accounting periods benefit equally. Therefore, a credit union that receives an insurance dividend credit in the first part of the year may distribute this credit evenly over the remaining periods of the year. When dividends are received by the credit union by check, the charge for the entire amount is to "Cash", (Account No. 731) or to "Other Prepaid Insurance", (Account No. 766). Expense accounts such as "Life Savings Insurance", (Account No. 312) and "Borrowers' Insurance", (Account No. 313), or "Other Miscellaneous Operating Income", (Account No. 151) should be credited, as appropriate, with only one-twelfth, one-fourth or one-half of the amount of the dividend, depending upon the frequency of accrual periods, and the remainder of the dividend should be credited to this account. During the subsequent accounting periods in the calendar year, this account should be debited and expenses or other income should be credited for the applicable proportionate parts of the deferred amount.

Entries in Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

-
- a) When advice of dividend credit is received and the credit union decides to spread the credit by monthly entries offsetting expenses over the entire calendar year (assume the dividend is for \$600, and 60 percent applies to life savings insurance and 40 percent applies to borrowers' insurance):

Dr.-Other Prepaid Insurance (Acct. No. 766)	\$600.00
Cr.-Life Savings Insurance (Acct. No. 312)	\$30.00
Cr.-Borrowers' Insurance (Acct. No. 313)	20.00
Cr.-Deferred Credits - Insurance Premium Rebates (Acct. No. 882)	550.00

- b) Each month, to record the write-off of deferred insurance dividends as offsets to expenses during the year:

Dr.-Deferred Credits -

Insurance Premium Rebates

(Acct. No. 882) \$50.00

Cr.-Life Savings Insurance

(Acct. No. 312) \$30.00

Cr.-Borrowers' Insurance

(Acct. No. 313) 20.00

Detailed Transactions

Credit:

- a) With the portion of dividend credits received which are to be prorated as offsetting credits to operating expenses for the remainder of the calendar year.

Debit:

- a) With periodic entries (monthly, quarterly or semiannually) to prorate the deferred credit over the calendar year.

883-DEFERRED GAIN ON LIQUIDATION OF LOANS

This account reflects the total amount of gains on sales of property acquired in liquidation of loans which have been deferred pending the collection of notes or contracts receivable taken in connection with the sale of the property.

Disposition of the Proceeds from the Liquidation of Collateral in Possession of the Credit Union.

Following is a discussion of the order in which the proceeds of the sale of the collateral should be applied. If the credit union is bound to an agreement for application of the proceeds of the collateral, such agreement should take precedence over the order listed below.

If the sale is for cash or under a note or contract, the proceeds should be debited to the appropriate account; the credits should be applied in the order and to the extent listed below:

To "Assets Acquired in Liquidation of the Loans", (Account No. 798) to the extent that this account has been charged (debited) for costs in connection with the collateral.

To "Allowance for Loan Losses", (Account No. 719) to the extent of charge offs in connection with the loan to which the collateral has been related.

To "Loans-Collateral in Process of Liquidation", (Account No. 707) to the extent of the balance of the loan.

To "Interest on Loans", (Account No. 111) to the extent of any interest due on the loan.

To "Other Miscellaneous Operating Income", (Account No. 151) providing the credit union is to retain such gain. However, if the sale is under a note or contract, any gain on the sale should be deferred by crediting the amount of the gain to "Deferred Gain on Liquidation of Loans", (Account No. 883), until such time as the note or contract is paid in full.

In the absence of a binding agreement or other requirement, statutory or otherwise, the credit union may apply the excess of the proceeds of the sale of the collateral over the amounts that are applied to other accounts to "Other Miscellaneous Operating Income." The board of directors should keep in mind that it is not the function of the credit union to earn income in this manner. Consideration should be given to voluntarily returning the excess to the borrower in those cases where the credit union is not required to do so.

In view of the above, it is apparent that deferred gains should occur only after the application of sales proceeds has been made to offset other charges relating to the original loan. In the case of assets acquired from the liquidation of loans purchased- from other credit unions or from the liquidation of Title I FHA loans, the same principles outlined herein should apply.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

-
- a) To record the amount of deferred gain on the sale of an asset. Assume an automobile is sold for \$1,400 when the original loan was \$2,500 and, at the time of sale, the balance due was \$800 less shares applied of \$50. The assets acquired were established at a carrying value of \$750. The purchaser paid \$100 in cash and the credit union accepted a note secured by the automobile in the amount of \$1,300. The entry to record the sale would be:

Dr.-Cash (Acct. No. 731)	\$100
Dr.-Notes and Contracts Receivable (Acct. No. 711)	1,300
Cr.-Assets Acquired in Liquidation of Loans (Acct. No. 708)	\$750
Cr.-Interest on Loans (Acct. No. 111)	75
Cr.-Deferred Gain on Liquidation of Loans (Acct. No. 883)	575

- b) When the note is paid in full:

Dr.-Deferred Gain on Liquidation of Loans (Acct. No. 883)	\$575
Cr.-Other Miscellaneous Operating Income (Acct. No. 151)	\$575

NOTE: In cases where it is credit union policy to return to the borrower any overall gain on liquidation of loans, the credit above would be to "Accounts Payable", (Account No. 801) or "Cash", (Account No. 731) instead of to Account No. 151.

Detailed Transactions

Credit:

- a) With amount of gain on sale of collateral pending full collection of notes and contracts received in payment thereon.

Debit:

- a) With deferred gain on liquidation of loans when notes and contracts receivable have been collected in full.

884-DEFERRED CREDITS-CREDIT CARD COMMITMENTS

Fees that are periodically collected from credit cardholders are considered commitment fees and shall be deferred and amortized to income on a straight-line basis over the period that the fees entitle the cardholder to use the card.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record unless separate columns have been added.

Illustrative Entries

- a) To record receipt of the fees. Assume that fees totaling \$10,000 were collected from cardholders. The fees entitle the cardholders to use their cards for the next twelve months:

Dr.-Cash (Acct. No. 731)	\$10,000
Cr.-Deferred Credits-Credit Card Commitments (Acct. No. 884)	\$10,000

- b) To record the monthly recognition of income from credit card commitment fees:

Dr.-Deferred Credits-Credit	
Card Commitments	
(Acct. No. 884)	\$833.33
Cr.-Service Income on Credit	
Card Loans (Acct. No. 162)	\$833.33

Detailed Transactions

Credit:

- a) With the receipt of the credit card commitment fees.

Debit:

- a) With periodic recognition of income using the straight-line method of amortization.

885-DEFERRED CREDITS-PREPAID INTEREST-REAL ESTATE LOANS

Generally at settlement the real estate buyer is required to prepay the interest to cover the period between the settlement date and a date which is 1 month prior to the date on which the first payment is due. This prepaid interest should be recorded in this account and should be taken into income as it is earned. Refer to Section 6000 of this manual for illustrative accounting entries.

886-UNAMORTIZED DISCOUNT ON SALE OF ASSETS

This account is used when a sale of assets occurs and the purchaser offers a note as partial payment. When this account is used, the note will generally have an interest rate that is lower than the current rate of interest that would be charged to the purchaser if he or she borrowed the funds elsewhere. The Effective Interest Rate Method (simple interest applied to the unpaid balance) is thus used to discount the interest rate on the note to the current market interest rate for the transaction.

This process is used to determine the amount of recognized gain that can be realized during the current accounting period. The unrecognized gain (Unamortized Discount) is credited to this account and is amortized as income over the note's maturity. Reference should be made to Section 6000 for examples and illustrations as to how the account is used.

887-DEFERRED CREDITS-FEES RECEIVED ON LOANS TO BE PURCHASED

This account includes fees received on loans to be purchased. The account should be debited when the actual purchase takes place.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record

Illustrative Entries

- a) To record receipt of the fees. Assume that the credit union is purchasing \$100,000 in loans for \$102,000. The purchasing credit union received a fee of \$10,000 prior to the actual purchase:

Dr.-Cash (Acct. No. 731)	\$10,000
Cr.-Deferred Credits-Fees Received on Loans to be Purchased (Acct. No. 887)	\$10,000

- b) To record the actual purchase of the loans:

Dr.-Loans Purchased (Acct. No. 714)	\$100,000
Dr.-Deferred Credits (Acct. No. 887)	10,000
Cr.-Cash (Acct. No. 731)	\$102,000
Cr.-Discount on Loans Purchased (Acct. No. 714.2)	8,000

888-DEFERRED CREDIT-INSURANCE PREMIUM STABILIZATION RESERVE

This account may be used by credit unions that are participating in risk rating plans for loan protection and life savings insurance. These insurance plans vary greatly.

Normally, when a credit union receives a premium refund, the refund represents a reduction of the premium and it should be treated as such by crediting the appropriate expense account. If the refund is for a prior period and the amount is material, then the financial statements for the prior period should be restated. On the other hand, if the credit memo that is received by the credit union actually represents a prepayment, the "Insurance Premium Stabilization Reserve", (Account No. 792) should be debited with an offsetting credit to this Account No. 888. Periodically, the deferred credit should be amortized to expense over the period benefited. Interest received, if any, on the deposit left with the insurance company should be recorded in "Other Miscellaneous Operating Income", (Account No. 151).

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

- a) When the insurance company advises the credit union of a refund or dividend on past premiums which is to be retained and credited to the credit union's reserve account; assume the dividend is for \$600, and 60 percent applies to life savings insurance and 40 percent applies to borrowers' insurance:

Dr.-Insurance Premiums Stabilization	
Reserve (Acct. No. 792)	\$600.00
Cr.-Deferred Credits-Insurance	
Premium Stabilization Reserve	
(Acct. No. 889.2)	\$600.00

- b) Each month, to record the write-off of the deferred credit as offsets to expenses:

Dr.-Deferred Credits-Insurance	
Premium Stabilization Reserve	
(Acct. No. 889.2)	\$50.00
Cr.-Life Savings Insurance	
(Acct. No. 312)	\$30.00
Cr.-Borrowers' Insurance	
(Acct. No. 313)	20.00

Detailed Transactions

Credit:

- a) With refunds or dividends on past premiums when the refund or dividend is to be retained by the insurance company and credited to the credit union's reserve account.

Debit:

- a) With periodic entries (monthly, quarterly or semiannually) to prorate the deferred credit over the calendar year.

889-OTHER DEFERRED CREDITS

This account represents the balance of income deferred by the credit union for which no provision is made in other accounts in this series (Account Nos. 881 through 888).

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Detailed Transactions

Credit:

- a) With amounts of miscellaneous income determined to be proper for deferred treatment.
- b) With deferred income recorded in this account, when transferred to income, or when written off with the approval of the board of directors.

890-DEFERRED CREDITS-NET ORIGINATION FEES (COSTS)-LINES OF CREDIT TO MEMBERS

If the criteria for immateriality outlined in Section 4050.4, Account No. 701.9, “Origination Fees (Costs)-Consumer Credit Transactions”, are met, the fees on lines of credit should be taken directly into income and the direct costs expensed as incurred. However, if the criteria are not met, the net fees (costs) should be amortized and recognized as income using the straight-line method of amortization over the life of the credit plan. If the borrower pays all borrowings and cannot reborrow under the contract, any unamortized net fees or costs should be recognized in income upon payment.

If the agreement provides for the option of converting a revolving line of credit to a term loan, the federal credit union should recognize the net fees or costs using the straight-line method over the combined life of the line of credit and the term loan. If the option is exercised, the net unamortized fees (costs) are transferred to the appropriate loan contra account for net origination fees (costs). The net fees (costs) should then be treated as an adjustment of yield using the interest method. If the option is not exercised and the revolving line of credit expires and all borrowings are extinguished, the net unamortized fees (costs) should be recognized as income on the termination date.

Although there are no statutory or regulatory limitations regarding maturity, sound business practice dictates that a termination date should be built into the line of credit loan agreement. A termination date provides the lender an opportunity to reevaluate the borrower’s financial position and the borrower, to reassess his or her credit needs. Termination dates establish a point at which the equity line will automatically end. The life of a home equity line of credit should be short (i.e., 5 to 10 years) again to enable the periodic reevaluation of the loan plan and to permit members to reassess their credit needs.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the “Miscellaneous” columns of the Journal and Cash Record.

Illustrative Entries

- a) To record the net origination fees (costs):

Dr.-Cash (Acct. No. 731)	\$1,000
Cr.-Deferred Credits-Net	
Origination Fees (Costs)-	
Lines of Credit to Members	
(Acct. No. 890)	\$1,000

- b) To record the monthly amortization at the end of the accounting period:

Dr.-Deferred Credits-Net	
Origination Fees (Costs)-	
Lines of Credit to Members	
(Acct. No. 890)	\$41.67
Cr.-Other Miscellaneous	
Operating Income	
(Acct. No. 151)	\$41.67

Detailed Transactions

Credit:

- a) With the fees received.
- b) With the amortization of net costs.
- c) With the unamortized net costs transferred to Account No. 702.1.

Debit:

- a) With the direct costs incurred.
- b) With the amortization of net fees.
- c) With the unamortized net fees transferred to Account No. 702.1.

891 -DEFERRED CREDITS-NET ORIGINATION FEES (COSTS)-LINES OF CREDIT TO MEMBERS-CREDIT CARDS

The net origination fees and costs on credit card lines of credit should be accounted for as discussed in the first paragraph of (Account No. 890), "Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members."

892-DEFERRED CREDITS-NET ORIGINATION FEES (COSTS)-HOME EQUITY LINES OF CREDIT

893-DEFERRED CREDITS-NET COMMITMENT FEES (COSTS)-LINES OF CREDIT TO MEMBERS

Fees charged for entering into an agreement to make a loan i.e., letters of credit, should be credited to this account. Direct loan origination costs incurred to make a commitment to originate a loan should be debited to this account. The net commitment fees should be deferred. If the commitment is exercised, the net fees should be amortized into income on a straight-line basis over the life of the contract. Account No. 163, "Service Income-Net Commitment Fees" should be used to recognize this income. If the commitment expires unexercised, the net fees should be recognized in income upon expiration.

If the enterprise's experience with similar arrangements indicates that the likelihood is slight that the commitment will be exercised, the net fees should be recognized over the commitment period on a straight-line basis as service fee income. If the commitment is subsequently exercised, the remaining unamortized fees should be amortized on a straightline basis over the contract period.

If the borrower pays all borrowings and cannot reborrow under the contract, any unamortized net fees should be recognized in income upon payment. If the borrower has the option of converting the line of credit to a term loan, the straight-line method should be applied to the combined life of the line of credit and term loan. If the option is exercised the unamortized net fees should be transferred to Account No. 701.8, "Net Commitment Fees (Costs)Loans to Members."

Once in the contra account, the net fees should be amortized into income based on the interest method. If the option is not exercised and no borrowings are outstanding, the net fees should be recognized in income.

If the commitment fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, if that percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as service income as of the determination date.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record.

Illustrative Entries

-
- a) To record the net commitment fees received from a member:

Dr.-Cash (Acct. No. 731)	\$1,000
Cr.-Deferred Credits-Com- mitment Fees (Costs)- Lines of Credit to Members (Acct. No. 893)	\$1,000

- b) Assuming the commitment is exercised, the periodic amortization would be recorded as follows:

Dr.-Deferred Credits-Com-	
mitment Fees (Costs)-	
Lines of Credit to Members	
(Acct. No. 893)	\$100.00
Cr.-Service Income-Net	
Commitment Fees (Costs)	
(Acct. No. 163)	\$100.00

- c) Assuming the commitment expires unexercised, the entry would be:

Dr.-Deferred Credits-Com-	
mitment Fees (Costs)-	
Lines of Credit to Members	
(Acct. No. 893)	\$1,000
Cr.-Service Income-Net	
Commitment Fees (Costs)	
(Acct. No. 163)	\$1,000

Detailed Transactions

Credit:

- a) With the amount of fees received.

Debit:

- a) With the amount of direct costs incurred.
- b) With the period amortization of net fees.
- c) With the amount of net fees when the commitment expires unexercised.
- d) With the amount of unamortized net fees when the option to convert to a term loan is exercised.

894-DEFERRED CREDITS-NET COMMITMENT FEES (COSTS)-LOANS TO MEMBERS

Fees charged for entering into an agreement to make a loan should be credited to this account. Direct loan origination costs incurred to make a commitment to originate a loan should be debited to this account. The net commitment fees should be deferred. If the commitment is exercised, this account should be debited and the appropriate loan contra account for net commitment fees should be credited. The net fees should then be recognized as income over the life of the loan using the interest method. If the commitment expires unexercised, the net fees should be recognized as income upon expiration.

If the enterprise's experience with similar arrangements indicates that the likelihood is slight that the commitment will be exercised, the net fees should be recognized over the commitment period on a straight-line basis as service fee income. If the commitment is subsequently exercised, the remaining unamortized fees should be transferred to Account No. 701.8, "Net Commitment Fees (Costs)-Loans to Members" and recognized as income over the life of the loan using the interest method.

4050.6 SAVINGS AND EQUITY ACCOUNTS (900 SERIES)

900-SHARES OF MEMBERS

Federal credit unions are empowered to issue share accounts at varying dividend rates and share certificates at varying dividend rates and maturities, subject to rates, terms, and conditions as established by a credit union's board of directors. The National Credit Union Administration Rules and Regulations provide flexibility to allow each federal credit union to develop a system of share accounts and share certificate accounts of its members.

The following are the account numbers and account titles for the various types of share accounts:

- 901-Regular Share;
- 902-Share Draft;
- 903-Club Accounts;
- 904-Other Shares;
- 905-Escrow Accounts;
- 906-IRA/Keogh Retirement Service Shares;
- 907-IRA/Keogh Retirement Service Certificates;
- 908-Share Certificates;
- 909-Unposted Payroll Deduction Shares;
- 910-Public Unit Shares;
- 911-Money Market Shares; and
- 921-Shares of Nonmembers.

Additional valuations of Regular shares account may be established and assigned the next account member in the sequence, i.e., 901.1, 901.2, etc.

The National Credit Union Administration Rules and Regulations Part 707 address the required disclosures for share accounts.

901-REGULAR SHARES

Federal credit unions must make available to its members a share account which does not require the holder to maintain a minimum balance greater than the stated par value of one share. This account confers ownership rights to the member and provides for continued membership in the credit union. This type of share account is defined as a "Regular Share Account." The board of directors of any

federal credit union may establish Regular Share accounts with carrying dividend rates. Every type of share account need not receive the same dividend rate, and accordingly, federal credit unions are authorized to value the dividend rates on different Regular Share accounts, provided the rates are established and paid in a nondiscriminatory manner. However, all accounts within a participate class must receive identical treatment.

Account No. 901 represents the total of all members' Regular Share accounts as shown on the Individual Share and Loan Ledger (Form FCU 103 or its equivalent).

Entries in the Journal and Cash Record

This account is credited in the "Shares Paid In" column (Form FCU 103) with amounts collected from members as shown on summary vouchers which represent payments on shares, and with dividends and interest refunds credited to members share accounts. This account is debited on the "Shares Withdrawn" column (Form FCU 103) when amounts are withdrawn or applied on amounts due the credit union.

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of the "Shares" columns from the Journal and Cash Record at the end of each month.

Illustrative Entries

-
- a) When payments on shares and entrance fees are received from members:

Dr.-Cash (Acct. No. 731)	\$10.00
Cr.-Regular Shares-	
(Acct. No. 901)	\$8.00
Cr.-Fees and Charges	
(Acct. No. 131)	2.00

- b) When a member withdraws from his share account:

Dr.-Regular Shares	
(Acct. No. 901)	\$20.00
Cr.-Cash (Acct. No. 731)	\$20.00

- c) When a member authorizes the credit union to apply his shares to his outstanding loan:

Dr.-Regular Shares	
(Acct. No. 901)	\$50.00
Cr.-Loans (Acct. No. 701)	\$49.00
Cr.-Interest on LoanS	
(Acct. No. 111)	1.00

Detailed Transactions

Credit:

- a) With amounts received for share purchases.
- b) With amounts of dividends and interest refunds applied toward the purchase of shares.

Debit:

- a) With amounts of withdrawals from share accounts.
- b) With amounts of shares applied on outstanding loans.

Entries in Member's Passbook

All payments on and withdrawals of shares must be entered in the Member's Individual Share Ledger and on the Member's Passbook or Statement of Account at the time of the receipt of the cash or cash disbursement.

Postings to Individual Share and Loan Ledger

The items which are accumulated in the "Shares Withdrawn" column of the Journal and Cash Record are recorded individually in the member's account on the Individual Share and Loan Ledger (Form FCU 103 or its equivalent). "Shares Paid In" entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher (Form FCU 105, or its equivalent).

Balancing Individual Share Accounts

The total of the individual Share account balances as shown in the Individual Share and Loan Ledgers should be balanced with the "Regular Shares", (Account No. 901) in the General Ledger at least monthly and the trial balance listings (adding machine tapes or computer trial balance must be retained). Procedures for balancing the daily postings to these ledgers are found in Section 5060.10.

902-SHARE DRAFTS

Traditionally, a Share Draft account is an account from which the holder is authorized to withdraw shares by means of a negotiable or transferable instrument or other order. In order to facilitate monitoring for reporting purposes, any account that is accessible by draft, except for "Money Market Shares", (Account No. 911) needs to be included in this account classification. The account should represent the total of all individual Share Draft accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (FCU 103 or its equivalent). The board of directors may declare dividends on such accounts as provided in the Federal Credit Union Act.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the Journal and Cash Record; unused Journal and Cash Record columns (columns 17 to 20) may be used or the credit union may use the Journal and Cash Record Continuation Sheet (Form 101A).

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of the Share Draft accounts columns of the Journal and Cash Record at the end of each month.

Posting to Members Accounts

The individual items which are accumulated in the debit column of the Journal and Cash Record for Share Draft accounts for monthly posting to the General Ledger, should also be recorded on the Individual Share and Loan Ledger and in the Member's Passbook or Statement of Account. Credit entries for deposits to the share draft accounts should be recorded from Cash Received Vouchers (Form FCU 105 or its equivalent); other credit entries should be posted from appropriate Journal Vouchers (Form FCU 106A or its equivalent).

Balancing Individual Share Draft Accounts

The total of the individual share draft accounts, as shown in the Individual Share and Loan Ledgers, should be proved with the "Share Draft Accounts", (Account No. 902) in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

- a) When a member opens an account or makes a deposit to a Share Draft account:

Dr.-Cash (Acct. No. 731)	\$200.00
Cr.-Share Draft Accounts	
(Acct. No. 902)	\$200.00

- b) When a transfer is made from another share account to replenish a Share Draft account or to clear an overdraft:

Dr.-Shares (Acct. No. 901)	\$50.00
Cr.-Share Draft Accounts	
(Acct. No. 902)	\$50.00

- c) When an overdraft is cleared through a line of credit:

Dr.-Lines of Credit to Members	
(Acct. No. 702)	\$50.00
Cr.-Share Draft Accounts	
(Acct. No. 902)	\$50.00

- d) When a charge is made for issuing drafts to a member:

Dr.-Share Draft Accounts	
(Acct. No. 902)	\$6.00
Cr.- Miscellaneous Fee	
Income (Acct. No. 152)	\$6.00

- e) When a Share Draft is cleared and posted to a member's account:

Dr.-Share Draft Accounts	
(Acct. No. 902)	\$75.00
Cr.-Cash-Share Draft Settlement	
Account (Acct. in 730 Series)	\$75.00

Detailed Transactions

Credit:

- a) With amounts received from share deposits.
- b) With amounts transferred from another share account.
- c) With amounts transferred from a line of credit.
- d) With amounts of dividends applied.

Debit:

- a) With drafts that clear through the Share Draft settlement account.
- b) With service charges, such as costs to issue drafts to members.

903-CLUB ACCOUNTS

A credit union may, if the board of directors deems it desirable, permit more than one share account for each member. These additional accounts may be opened for certain purposes such as Christmas savings, vacations, and savings for an educational fund. The member retains full control over his/her Club accounts, as with a Regular Share account, subject to the terms and conditions set by the board of

directors. If club accounts are used, they should be included with the member's Regular account in determining whether the shares held by him have exceeded the limit set by the board of directors. If a member is permitted to establish a club account, it should be indicated on the share trial balance and/or share ledger somewhat as follows:

“John Jones”, Club Share Account. The accounts should either be numbered consecutively such as Club Account No. 1, No. 2, etc., or be titled by the type of account, such as Christmas Savings, Share Account, Vacation Share Account, and so on.

The credit union may segregate the different valuations of Club Accounts in separate General Ledger accounts (i.e., Account No. 903.1 for Christmas Savings and 903.2 for Vacation Savings). The summary record on these accounts should be kept on General Ledger account Form FCU 102. The balances of these segregated Club accounts may be combined with the balance of “Regular Shares”, (Account No. 901) for the preparation of the monthly financial reports. The balance of each segregated Club Account must equal the total of the individual accounts for each valuation of Club Account. The balancing should be done at least monthly.

Posting of Payments and Withdrawals of Club Shares

All entries affecting this account should be recorded in the Journal and Cash Record; unused “Journal and Cash Record” (columns 17 to 20) may be used or the credit union may use the Journal and Cash Record Continuation Sheet (Form 101A). Total debits and credits to this account in the General Ledger are made by posting the totals of the “Club Accounts” columns of the Journal and Cash Record at the end of each month. The individual payments on and withdrawals of club shares should also be entered in the member's Individual Share Ledger and on the Member's Passbook or Statement of Account at the time of the receipt or cash disbursement.

904-OTHER SHARES

This account represents the balance of share accounts for which no provision is made in other accounts in this series (Account Nos. 901 through 921).

Examples include the following:

- A notice account is an account which requires the holder to give written notice of the intent to withdraw.
- A minimum balance account is an account which requires the holder to maintain a specified balance in the account for at least an entire dividend period. The board of directors can establish any minimum balance they choose.
- A split rate account is an account which earns dividends at a different rate on the portion of the balance above a certain minimum requirement.

Further valuations may be established. The board of directors may declare dividends on such accounts as provided for in Section 117 of the Federal Credit Union Act.

905-ESCROW ACCOUNTS

If escrow accounts are required and the borrower is a member, the escrow account should be maintained as a special limited withdrawal share account. The escrow account should provide for the accumulation of funds to pay for not more than one year's taxes, assessments, insurance premiums, or other charges that could affect the credit union's first lien position. At the time the account is opened, the member-borrower should be required to sign a blanket withdrawal authorization which permits the FCU to use the funds to make the required payments. The FCU should also arrange with each borrower for whom an escrow account is maintained to promptly submit to the FCU for payment, any statements received by the borrower relating to taxes, assessments, insurance premiums and other fees which are to be paid from the escrow account. Any disbursement made from an escrow account should be supported by such documents.

Shares in escrow accounts may not be pledged as security for loans nor may any such shares be applied to loans which are delinquent. Withdrawals of the amount in excess of that amount required to pay the fees for which the account was established are permissible at any time. Other withdrawals, except to pay the fees for which the account was established are not permissible.

For dividend purposes an escrow account is considered a Regular Share account. This account should represent the total of all individual Share-Escrow Accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (Form FCU 103 or its equivalent). The balance on this account may be combined with the balance of "Regular Shares", (Account No. 901) for the preparation of the monthly financial reports.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record unless, because of volume, the credit union identifies separate columns for the credit and/or debit activity.

Posting to Members Accounts

All payments to, and withdrawals from escrow accounts should be entered on the Member's Passbook (Form FCU 107) or the member's Statement of Account at the time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All receipts and disbursements on escrow accounts should be recorded individually in the member's account in the Individual Share and Loan Ledger (Form FCU 103, or its equivalent). Shares Paid In entries are made in the member's Passbook or the Member's Statement of Account and the Individual Cash Received Voucher (Form FCU 105 or its equivalent); Shares Withdrawn entries are made from the Journal Voucher (Form FCU 106A, or its equivalent).

Balancing Individual Share Accounts

The total of the individual share accounts for escrow accounts as shown in the separate Individual Share and Loan Ledger should be proved with this "Escrow account", (Account No. 905) in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries for escrow accounts (Account No. 905)

- a) To record receipt of funds from settlement on real estate loan (hazard insurance-\$30; Mortgage insurance-\$20; Property Taxes-\$317):

Dr.-Cash (Acct. No. 731)	\$367.00
Cr.-Escrow Accounts (Acct. No. 905)	\$367.00

- b) To record payment of real estate property taxes from Escrow Account:

Dr.-Escrow Accounts (Acct. No. 905)	\$317.00
Cr.-Cash (Acct. No. 731)	\$317.00

Detailed Transactions

Credit:

- a) With amounts received at settlement on real estate loan.
- b) With amounts received from a real estate borrower on a periodic basis.

Debit:

- a) With amounts for payment of taxes, insurance, etc., for which the Escrow Account was established.
- b) With withdrawals of amounts in excess of the amount required to pay fees for which the account was established.

906-IRA/KEOGH RETIREMENT SERVICE SHARES

907-IRA/KEOGH RETIREMENT SERVICE CERTIFICATES

The account represents the total of all individual share accounts established pursuant to Sections 401(d) and 408 of the Internal Revenue Code as shown on the separate Individual Share and Loan ledger subsidiary records (Form 103, or its equivalent). Establishing such accounts are discussed in Section 5150.9 of this manual. Shares in this account may not be pledged as security for loans nor may such shares be applied to loans which are delinquent. Withdrawals from these accounts are subject to restrictions as specified in the individual trust or custodial agreements.

The credit union in its capacity of trustee for these accounts must comply with certain reporting requirements as established by the Internal Revenue Code.

A properly-completed, duly-approved application for membership plus an initial payment into a share account established for retirement purposes under a trust or custodial agreement is sufficient to qualify for membership. A companion Regular Share account (Account No. 901, "Regular Shares"), is not required for membership.

Entries in the Journal and Cash Record

All entries affecting this column should be recorded in the "Miscellaneous" columns of the Journal and Cash Record unless, because of volume, the credit union identifies separate columns for the credit and/or debit activity.

Postings to Members Accounts

All payments on Retirement Plan Shares and withdrawals should be entered on the member's Passbook or Statement of Account at the time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments by members on Retirement Plan Shares should be recorded individually in the member's account in the Individual Share and Loan Ledger (Form FCU 103, or its equivalent). Shares Paid In entries are made in the Share and Loan Ledger from the Cash Received Voucher (Form FCU 105, or its equivalent).

Balancing Individual Share Accounts

The total of the individual share accounts for IRA/Keogh retirement plan shares as shown in the separate Individual Share and Loan ledgers should be proved with Account No. 906 in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

-
- a) When payments on Retirement Plan Shares are received:

Dr.-Cash (Acct. No. 731)	\$60.00
Cr.-Shares-Retirement Plans	
(Acct. No. 906)	\$60.00

- b) When dividends are applied to Retirement Plan Shares of members:

Dr.-Dividends Payable	
(Acct. No. 820)	\$5.00
Cr.-Shares-Retirement Plans	
(Acct. No. 906)	\$5.00

- c) When Retirement Plan Shares are withdrawn (paid to member):

Dr.-Shares-Retirement Plans	
(Acct. No. 906)	\$125.00
Cr.-Cash (Acct. No. 731)	\$125.00

Detailed Transactions

Credit:

- a) With amounts received for share purchases.
- b) With amounts of dividends applied toward the purchase of shares.

Debit:

- a) With amounts of withdrawals of retirement plan shares.
- b) With amounts of fees assessed for trusts or custodial services.

908-SHARE CERTIFICATES

This account represents the total of all individual share certificate accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (Form FCU 103, or its equivalent) established for the share certificates.

Entries in the Journal and Cash Record

All entries affecting this account should be entered in a separate column of the Journal and Cash Record or Form 101A, Journal and Cash Record (Continuation Sheet).

Posting to Members Accounts

All payments on Share Certificates accounts and withdrawals should be entered on the Member's Passbook (Form FCU 107), or the Member's Statement of Account, at this time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments and withdrawals by members on Share Certificate accounts should be recorded individually in the member's certificate account in the Individual Share and Loan Ledger (Form FCU 103, or its equivalent). Shares Paid In entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher (Form FCU 105, or its equivalent).

Balancing Individual Share Certificates

The total of the individual share certificate accounts for Share Certificates as shown in the separate Individual Share and Loan Ledger should be proved with Account No. 908 in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

-
- a) When payments on Share Certificates are received:

Dr.-Cash (Acct. No. 731)	\$10,000.00
Cr.-Share Certificates	
(Acct. No. 908)	\$10,000.00

- b) When dividends are applied to Share Certificates of members:

Dr.-Dividends Payable	
(Acct. No. 820)	\$700.00
Cr.-Share Certificates	
(Acct. No. 908)	\$700.00

- c) When Share Certificates are withdrawn (paid to member):

Dr.-Share Certificates	
(Acct. No. 908)	\$10,700.00
Cr.-Cash (Acct. No. 731)	\$10,700.00

Detailed Transactions

Credit:

- a) With amounts received for certificates purchase.
- b) With amounts of dividends added to the account.

Debit:

- a) With amounts of withdrawals from the certificates.
- b) With amounts of penalty charges for premature withdrawals.

909-SHARES-UNPOSTED PAYROLL DEDUCTIONS

This account is used only by credit unions under Modified Plan No. 2 (Accumulated Payroll Deduction Plan) for processing payroll deductions made from members' paychecks by their employer(s). See Section 5090.4.2.1 for a description of the Plan. This account should represent the accumulated amount of payroll deductions not yet distributed to "Regular Shares", (Account No. 901); "Loans". (Account No. 701); and "Interest on Loans", (Account No. 111); etc. Any amount in this account at month end should be combined with the amount in "Regular Shares", (Account No. 901) in the monthly financial report.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns.

Detailed Transactions

Credit:

- a) With the total of each periodic payroll deduction received.

Debit:

- a) With the total of payroll deductions previously credited to this account when applied to appropriate accounts; e.g., "Regular Shares", (Account No. 901), "Loans", (Account No. 701), "Interest on Loans", (Account No. 111), etc.

910-PUBLIC UNIT SHARES

This account represents the total of all individual Public Unit Share accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (Form FCU 103, or its equivalent) established for such accounts. Public unit accounts are defined in Sections 701.37-1 and 701.37-2 of the National Credit Union Administration Rules and Regulations.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous": columns of the Journal and Cash Record unless, because of volume, the credit union identifies separate columns for the credit and/or debit activity.

Posting to Members Account

All payments and withdrawals on Public Unit Shares should be entered on the custodian's Passbook (Form FCU 107, or its equivalent) or the Statement of Account at the time of receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments by custodians on Public Unit Shares should be recorded individually in the shareholder's account in the Individual Share and Loan Ledger (Form 103, or its equivalent). "Share Paid In" entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher (Form FCU 105, or its equivalent).

Balancing Individual Share Accounts

The total of the individual share accounts for Public Unit Shares as shown in the separate Individual Share and loan ledgers must be proved with this Account No. 910 in the General Ledger at least monthly and the listings retained in the file.

Illustrative Entries

-
- a) When payments on Public Unit Shares are received:

Dr.-Cash (Acct. No. 731)	\$60.00
Cr.-Shares-Public Unit Accounts	
(Acct. No. 910)	\$60.00

- b) When dividends are applied to Public Unit Share Accounts:

Dr.-Dividends Payable	
(Acct. No. 820)	\$5.00
Cr.-Shares-Public Unit Accounts	
(Acct. No. 910)	\$5.00

- c) When Public Unit Shares are withdrawn (paid to shareholder):

Dr.-Shares-Public Unit Accounts	
(Acct. No. 910)	\$125.00
Cr.-Cash (Acct. No. 731)	\$125.00

Detailed Transactions

Credit:

- a) With amounts received for share purchase.
- b) With amounts of dividends applied toward the purchase of shares.

Debit:

- a) With amounts of withdrawals of Public Unit Shares.

911-MONEY MARKET SHARES

This account represents the total of all the individual money market share accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (Form FCU 103, or its equivalent) established for money market shares.

Generally, a Money Market Share account is a short-term, draft account designed to pay competitive money market rates.

The specific terms and conditions are determined by the board of directors of the credit union.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the Journal and Cash Record columns; unused "Journal and Cash Record" (columns 17 to 20) may be used or the credit union may use the Journal and Cash Record continuation Sheet (Form 101A).

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of the "Money Market Share Accounts" column of the Journal and Cash Record at the end of the month.

Posting to Members Accounts

The individual items which are accumulated in the debit column of the Journal and Cash Record for Money Market Shares Accounts, for monthly posting to the General Ledger, should also be recorded on the Individual Share and Loan Ledger and in the Member's Passbook or Statement of Account. Credit entries for deposits to the Money Market Share Accounts should be recorded from Cash Received Vouchers (Form FCU 105 or its equivalent); other credit entries should be posted from the appropriate Journal Vouchers (Form FCU 106A or its equivalent).

Balancing Individual Money Market Share Accounts

The total of the individual Money Market Share Accounts as shown in the Individual Share and Loan Ledgers should be proved with the "Money Market Share Accounts", (Account No. 91 1) in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

-
- a) When payments on Money Market Shares are received:

Dr.-Cash (Acct. No. 731)	\$10,000
Cr.-Money Market Shares	
(Acct. No. 911)	\$10,000

- b) When dividends are applied to member's Money Market Shares earning a daily dividend:

Dr.-Dividends Payable (Acct. No. 820)	\$2.00
Cr.-Money Market Shares (Acct. No. 911)	\$2.00

- c) When a Money Market Share Draft is cleared and posted to a member's account:

Dr.-Money Market Shares (Acct. No. 911)	\$502.00
Cr.-Cash-Money Market Draft Settlement (Acct. in 730 Series)	\$502.00

- d) When Money Market Shares are withdrawn (paid to the member):

Dr.-Money Market Shares (Acct. No. 911)	\$9,500
Cr.-Cash (Acct. No. 731)	\$9,500

Detailed Transactions

Credit:

- a) With amounts received from share deposits.
- b) With amounts transferred from another share account.
- c) With amounts of dividends added to the account.

Debit:

- a) With amounts of withdrawals from the account paid to the member.
- b) With amounts of penalties charged if the account is withdrawn under the minimum balance requirement.
- c) With drafts that clear through the money market share settlement account.

921-SHARES OF NONMEMBERS

This account is used to record the shareholdings of other federally insured credit unions and, in the case of credit unions serving predominantly low income members, the shareholdings of nonmember individuals or organizations. Each share account must be maintained on an Individual Share Ledger record (Form 103 or its equivalent) and must be kept separate from the member's individual share accounts.

Entries in the Journal Cash Record

Transactions involving this account should be maintained separately from the Regular Share transactions recorded in the "Shares" columns. If there are a number of transactions each month, separate columns should be provided by using two of the blank columns in the Journal and Cash Record. If there are relatively few transactions the "Miscellaneous" columns may be used.

Posting to Members Account

All payments on shares and withdrawals of shares should be entered in the nonmember's passbook (Form FCU 107) or the Statement of Account, at the time of the receipt or disbursement of cash.

Posting to the Individual Ledger

Share withdrawal items recorded in the Journal and Cash Record are also recorded individually in the nonmembers' account in the Individual Share Ledger (Form FCU 103 or its equivalent). Share Paid In entries are made in the nonmember's Individual Share Ledger from the Cash Received Voucher (Form 105 or its equivalent).

Balancing Individual Nonmember Share Accounts

The total of the individual nonmember share accounts as shown in their individual ledgers should be proved with the "Shares of Nonmembers", (Account No. 921) in the General Ledger at least monthly and the listing retained in the files.

Illustrative Entries

-
- a) When payments on shares are received from nonmembers:

Dr.-Cash (Acct. No. 731)	\$300.00
Cr.-Shares of Nonmembers	
(Acct. No. 921)	\$300.00

- b) When a nonmember withdraws from his share account:

Dr.-Shares of Nonmembers	
(Acct. No. 921)	\$250.00
Cr.-Cash (Acct. No. 731)	\$250.00

Detailed Transactions

Credit:

- a) With amounts received for share purchases.

- b) With amounts of dividends applied toward the purchases of shares of nonmembers.

Debit:

- a) With amounts of withdrawals from share accounts by nonmembers.

925-UNINSURED SECONDARY CAPITAL

Federally insured credit unions designated as low-income are permitted to establish secondary capital accounts with certain restrictions. These restrictions are outlined in detail in Section 6180 of this Manual. Uninsured secondary capital accepted from a nonnatural person investor should be recorded as follows:

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record unless separate columns have been added.

Illustrative Entries

- a) When a low-income designated credit union accepts a secondary capital account of \$100,000 with a 6 year maturity from a nonnatural person investor:

Dr.-Cash (Acct. No. 731)	\$100,000
Cr.-Uninsured Secondary Capital	
(Acct. No. 925)	\$100,000

- b) When the remaining maturity of the above account is between 4 and 5 years the following adjusting entry should be recorded to reflect only 80 percent of the account as secondary capital:

Dr.-Uninsured Secondary Capital	
(Acct. 925)	\$20,000
Cr.-Subordinated CDCU Debt	
(Acct. No. 867)	\$20,000

NOTE: In the event that a low-income credit union has depleted its reserves and undivided earnings and incurs an operating loss, the loss will be distributed pro rata among the current secondary capital account holders. For example, a credit union has 5 secondary capital investors, each depositing \$100,000 for total secondary capital of \$500,000. The credit union incurs an operating loss of \$120,000; each account will be debited for \$24,000. The remaining balance in each account will be \$76,000, with a total remaining secondary capital of \$380,000. A credit union that has funds split between account numbers 925 (Uninsured Secondary Capital) and 867 (Subordinated CDCU Debt) should first absorb any pro rata loss from account 867 (Subordinated CDCU Debt), with any remaining loss carried over to account number 925 (Uninsured Secondary Capital).

If a secondary capital account holder wishes to withdraw the investment at maturity, the credit union must determine losses as of the previous month end and allocate the loss, again on a pro rata basis to all account holders, prior to releasing the funds. Keep in mind that all funds will continue to be at risk to cover losses that exceed reserves and undivided earnings regardless of their capital values based on their final maturities.

926-DEPOSITS

930-RESERVES

931-REGULAR RESERVES

The Federal Credit Union Act requires that federal credit unions establish and maintain a Regular Reserve which sets aside Earnings to absorb losses on uncollectable loans to members and to other credit unions (including unrecovered collection costs). For reserve transfer purposes, gross income is defined in Section 700.1 of the NCUA Rules and Regulations as the total of the operating income accounts. Nonoperating gains and losses, income received from the Central Liquidity Facility, and donations received by the credit union should not be included. Reference should be made to Section 5230 of this manual for further guidance in determining risk assets and adjusted gross income.

The Regular Reserve account should be increased (credited):

- a) At the end of the accounting period as follows:
 - 1) A credit union in operation for more than four years and having assets of \$500,000 or more shall set aside: (A) 10 percent of gross income until the Regular Reserve shall equal 4 percent of the total outstanding loans and risk assets, and then: (B) 5 percent of gross income until the Regular Reserve shall equal 6 percent of the total outstanding loans and risk assets.
 - 2) A credit union in operation for less than four years or having assets of less than \$500,000 shall set aside: (A) 10 percent of gross income until the Regular Reserve shall equal 7 1/2 percent of the total outstanding loans and risk assets, then; (B) 5 percent of gross income until the Regular reserve shall equal 10 percent of the total outstanding loans and risk assets.

When the Regular Reserve falls below the stated percentages above, it shall be replenished by such amounts that may be needed to maintain the statutory reserve requirements. For the purposes of the above formulas, total Reserves should be determined by adding the General Ledger balances in the "Regular Reserve", (Account No. 931) and "Allowance for Loan Losses", (Account No. 719) reduced by the balance in the "Provision for Loan Losses", (Account No. 301). If there is a credit balance in the "Provision for Loan Losses", that credit balance should be added to Account Nos. 931 and 719. The total of these accounts should be compared to risk assets for the purpose of determining the applicable percentage of gross income to be transferred to the Regular Reserve. Risk Assets are defined in Section 700.1 of the NCUA Rules and Regulations.

The offsetting debit for this entry is to “Undivided Earnings”, (Account 940). Corporate Central federal credit unions may eliminate loans to member credit unions from outstanding loans and risk assets when computing the amount that must be maintained in the Regular Reserve.

- b) With the credit balance of the “Provision for Loan Losses”, (Account No. 301) for the accounting period that was closed to the Net Income (Loss) account; offsetting debit to “Undivided Earnings”, (Account No. 940).
- c) By the amounts charged to the following accounts to the extent of their credit balances, in the order indicated, to cover a debit balance in Regular Reserve:
 - 1) Undivided Earnings;
 - 2) Appropriated Undivided Earnings; and
 - 3) Reserve for Contingencies and other reserves, exclusive of the Special Reserve for Losses established by order of the NCUA board.

When amounts in excess of the statutory reserve transfers have been credited to this account to offset debit balances therein, such amounts should be 4 6 earmarked” in the “Explanation” section of the General Ledger account. At a later time period, when an adequate balance has accumulated in Account No. 931, the earmarked funds may be returned to Undivided Earnings or other appropriate reserve accounts.

- d) By the amount of any remaining debit balance in the Regular Reserve after the above entries have been recorded; this transfer should be made to Undivided Earnings even though this will create a debit balance in that account.
- e) By the amounts of any supplementary transfers of Undivided Earnings to the Regular Reserve. Such supplementary transfers from Undivided Earnings can be made only upon the authorization of the board of directors.
- f) By amounts transferred from the “Special Reserve for Losses” upon the authorization of the NCUA Board in accordance with Section 702.1 of the NCUA Rules and Regulations.

The Regular Reserve account should be decreased (debited) with.

- a) The debit balance of “Provision for Loan Losses”, (Account No. 301) charged to expense in the accounting period that was closed to the period; offsetting credit to “Undivided Earnings”, (Account No. 940).
- b) Other losses provided that each such charge has been approved in advance by the NCUA Board.

Entries in the Journal and Cash Record

All increases and decreases to the Regular Reserve I are credited and debited to the “Miscellaneous” column.

Posting to the General Ledger

All debit and credit entries are posted from the "Miscellaneous" columns of the Journal and Cash Record to the General Ledger. ALL entries must be explained in the "Explanatory Remarks" columns of the General Ledger.

Illustrative Entries

At the close of the accounting period:

- a) To transfer the required percentage of gross income to the Regular Reserve:

Dr.-Undivided Earnings (Acct. No. 940)	\$800
Cr.-Regular Reserve (Acct. No. 931)	\$800

- b) To transfer the net amount of loan loss expense to the Regular Reserve (this amount should represent the debit balance of the "Provision for Loan Losses", (Account No. 301) closed to the Net income (Loss account):

Dr.-Regular Reserve (Acct. No. 931)	\$600
Cr.-Undivided Earnings (Acct. No. 940)	\$600

NOTE: If Account No. 301 showed a credit balance for the accounting period the reverse entry should be made. If no balance was shown in Account No. 301 for the period, no entry is necessary.

- c) If a debit balance develops in Account No. 931, this account should be credited for the amount thereof as required by the credit entries described above.

Dr.-Undivided Earnings (Acct. No. 940)	\$500
Cr.-Regular Reserve (Acct. No. 931)	\$500

NOTE: A debit balance must not be allowed to remain in this account.

Detailed Transactions

Credit:

At the end of the accounting period:

- a) With amount of transfer of gross income for the period as required by Section 116(a) of the Federal Credit Union Act, as amended; offsetting debit to "Undivided Earnings", (Account No. 940).
- b) With net recovery on loan losses for the period as shown by the credit balance of "Provision for Loan Losses", (Account No. 301) before closing; offsetting debit to Account No. 940).
- c) With amount necessary to eliminate a debit balance in this account at end of period (after recording the first two credit entries above, and the two debit entries below); offsetting debit(s) should be made as described in the credit entries under a. above.

Debit:

At the end of the accounting period:

- a) With net loan losses for the period as shown by the debit balance of "Provision for Loan Losses", (Account No. 301) before closing; offsetting credit to Account No. 940.
- b) With amount of other losses provided each such charge has been approved by the National Credit Union Administration.

932-SPECIAL RESERVE FOR LOSSES

The "Special Reserve for Losses" account is established when the NCUA Board, under the authority of the Federal Credit Union Act, orders a credit union to establish additional reserves. Specific accounting instructions pertaining to this account are furnished by the National Credit Union Administration when the Special Reserve for Losses is ordered. This account should not be used unless ordered by the National Credit Union Administration.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

933-OTHER REVOCABLE RESERVES

934-RESERVE FOR LOSS CONTINGENCIES

The board of directors has the power, after the required Regular Reserve transfer requirements have been set aside, to provide for probable losses by establishing a "Reserve for Loss Contingencies", (Account No. 934). A reserve for loss contingencies may only be established when it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, future

events will confirm the existence of the loss, and the loss can be reasonably estimated. Contingent losses not otherwise shown on the credit union's records should be recorded for amounts equal to those portions of the probable loss. Since the approximate date of the loss will probably be known, the expense may be accrued prior to the payment of the loss. This is accomplished by debiting the appropriate current period expense account and crediting "Accrued Loss Contingencies", (Account No. 856) for an equivalent amount. The amount of the accrual will need to be adequate enough to allow the accrued liability account to equal the amount of the estimated loss at the time payment is expected to be made. Losses should not be charged directly against the "Reserve for Loss Contingencies", (Account No. 934). After the loss has been paid and charged against the accrued liability account, the designated Reserve for Loss Contingencies balance should be eliminated and "Undivided Earnings", (Account No. 940) credited for a like amount at the end of the dividend period.

This account should also be used in cases where the deductible on the federal credit union's fidelity bond exceeds 10 percent of the federal credit union's Regular Reserve account (Section 701.20(h)(3) of the NCUA Rules and Regulations).

This account should only be increased with amounts necessary to maintain the difference between the deductible and 10 percent of the Regular Reserve Account. The amount of such excess should be credited to this account with an offsetting debit to "Undivided Earnings", (Account No. 940). The account should be eliminated when the deductible becomes less than or equal to 10 percent of federal credit union's Regular Reserve account. This is accomplished by debiting this account and crediting "Undivided Earnings", (Account 940).

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

-
- a) To establish, or increase the balance of, a Reserve for Loss Contingencies when determined necessary by the board of directors:

Dr.-Undivided Earnings	
(Acct. No. 940)	\$5,000.00
Cr.-Reserve for :Loss Contingencies	
(Acct. No. 934)	\$5,000.00

- b) To decrease or eliminate the amount of the Reserve for Loss Contingencies when determined necessary by the board of directors:

Dr.-Reserve for Loss Contingencies	
(Acct. No. 934)	\$2,000.00
Cr.-Undivided Earnings	
(Acct. No. 940)	\$2,000.00

- c) In the event a debit balance arises in the Regular Reserve in excess of the available credit balance in the Undivided Earnings account, this account would be reduced to eliminate such excess debit balance:

Dr.-Reserve for Loss Contingencies (Acct. No. 934)	\$5,000.00
Cr.-Regular Reserve (Acct. No. 931)	\$5,000.00

Detailed Transactions

Credit:

- a) As authorized by the board of directors with amounts to be established as a Reserve for Loss Contingencies and with authorized increases in this reserve.

Debit:

- a) As authorized by the Board of Directors with amounts to decrease the Reserve for Loss Contingencies.
- b) With required transfers to eliminate a debit balance in the Regular Reserve after the available credit balance in the Undivided Earnings account has been used to reduce the debit balance of the Regular Reserve.

935-CORPORATE CENTRAL RESERVE

A corporate central federal credit union should establish and maintain a Corporate Central Reserve. At the end of each dividend period (but no more frequently than monthly) and prior to paying dividends, the Corporate Central Reserve should be increased (credited) according to the following schedule:

- a) When the credit union's corporate reserves and undivided Earnings are less than 2 percent of assets reduced for CLF stock subscriptions and reverse repurchase transactions with US Central, the credit union should transfer .0015 times average daily assets times the number of days in the transfer period divided by 365, or
- b) When the credit union's corporate reserves and undivided Earnings are equal to or greater than 2 percent but less than 4 percent of assets reduced for CLF stock subscriptions and reverse repurchase transactions with US Central, the credit union should transfer .0010 times average daily assets times the number of days in the transfer period by 365.

Increases to the Corporate Central Reserve should be charged against Undivided Earnings by a change to this account.

940-UNDIVIDED EARNINGS

This account is used to show the balance of the accumulated Earnings of the credit union for prior periods and the Earnings of the period just closed which are available for dividends.

The Undivided Earnings account should be increased (credited) with:

- a) The net Earnings transferred at the end of each accounting period from the “Net Income (Loss)”, (Account No. 960).
- b) The net amount of provision for loan losses charged to expense in the accounting period (this represents the debit balance of “Provision for Loan Losses”, (Account No. 301) closed to the “Net In. come (Loss)”, (Account No. 960) for the period); offsetting debit should be to the “Regular Reserve”, (Account No. 931).
- c) With the amount transferred from “Special Reserve for Losses”, (Account No. 932) when this reserve is reduced or eliminated.
- d) The amount transferred from “Reserve for Loss Contingencies”, (Account No. 934) when this reserve is reduced or eliminated.
- e) The amount transferred from “Appropriated Undivided Earnings”, (Account No. 942) when this account is reduced or eliminated.
- f) The determined conversion amount for accrued income when converting to the Accrual Basis of Accounting, (the debit side of this entry is to the 780 account series).

The Undivided Earnings account should be reduced (debited) with:

- a) The amount of the net loss transferred at the end of the accounting period from the “Net Income (Loss)”, (Account No. 960).
- b) The net amount of any credit balance in the Provision for Loan Losses at the end of accounting period that was closed to the Net Income (Loss) for the period; the offsetting credit should be to the “Regular Reserve”, (Account No. 931).
- c) At the end of each accounting period, the required transfer of gross income to the “Regular Reserve”, (Account No. 931).
- d) The amount of any Special Reserve for Losses which may be required by the NCUA Board.
- e) The amount transferred to “Reserve for Losses Contingencies”, (Account No. 934).
- f) The determined conversion amount for accrued expenses when converting to the Accrual Basis of Accounting (the credit side of this entry is to the 850 account series).
- g) The amount transferred to “Appropriated Undivided Earnings”, (Account No. 942).

Expenses incurred or paid should not be charged directly to the Undivided Earnings account but must be charged to the appropriate expense accounts during the period they are incurred or paid. Likewise, income should not be credited directly to this account but credited to the appropriate income accounts. Bonuses to employees are not to be charged to this account but are to be considered as expenses. Dividends are also considered as expenses and charged to "Dividends", (Account No. 380). Interest refunds are considered as reductions of income and credited to "Interest Refunds", (Account No. 119).

Entries in the Journal and Cash Record

All of the debit and credit entries to this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Detailed Transactions

Credit:

- a) At the end of the accounting period, with the net Earnings transferred from "Net Income (Loss)", (Account No. 960).
- b) At the end of the accounting period, with the debit balance of the "Provision for Loan Losses", (Account No. 301) transferred to the "Regular Reserve", (Account No. 931).
- c) With transfers to reduce or eliminate the "Special Reserve for Losses" when authorized by the National Credit Union Administration Board.
- d) With transfers from the "Reserve for Loss Contingencies" or other reserves when authorized by the board of directors.
- e) With the determined conversion amount for accrued income when converting to the Accrual Basis of Accounting immediately following the closing of the books at the end of the dividend period.

Debit:

- a) At the end of the accounting period with net loss for the period transferred from "Net Income (Loss)", (Account No. 960).
- b) At the end of the accounting period with the net provision for loan losses credited to expense in the accounting period; transfer to the "Regular Reserve", (Account No. 931).
- c) With the statutory transfer to the Regular Reserve required by law representing a percentage of gross Earnings for the accounting period.
- d) With transfers to establish or increase the "Reserve for Loss Contingencies" (or other reserves) when authorized by the board of directors.
- e) With the determined conversion amount for Accrued Expense when converting to the Accrual Basis of Accounting immediately following the closing of the books at the end of the dividend period.

942-APPROPRIATED UNDIVIDED EARNINGS

This account may be established by any credit union, with the approval of the board of directors, for planned expenditures or liabilities, not otherwise shown on the credit union's records. This account should represent a further allocation of Undivided Earnings. It should be included in the equity section of the Statement of Financial Condition. Even though an appropriated undivided Earnings account has been established for a particular liability or expenditure, such as future dividend costs, relocation costs for moving to a new building or costs incurred for parking lot resurfacings, etc., expenditures of this nature should not be charged directly to this account. Rather they should be charged to their respective expense accounts and included in the "Operating Expenses (Control)", (Account No. 200) or the respective General Ledger expense account balance total that is closed to "Undivided Earnings", (Account No. 940). Past Earnings should be transferred from "Appropriated Undivided Earnings", (Account No. 942) to "Undivided Earnings", (Account No. 940) in amounts equal to the appropriated cost charged to the current period expenses during the accounting period. This will eliminate any reduction in Undivided Earnings that would have resulted from the charge to expenses.

Entries in the Journal and Cash Record

All of the debit and credit entries to this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Posting to the General Ledger

Entries to this account in the General Ledger should be posted individually from the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

-
- a) To establish, or increase the balance of, the Appropriated Undivided Earnings account when determined necessary by the board of directors:

Dr.-Undivided Earnings	
(Acct. No. 940)	\$5,000.00
Cr.-Appropriated Undivided Earnings	
(Acct. No. 942)	\$5,000.00

- b) To eliminate, or decrease balance of, the Appropriated Undivided Earnings when determined to be necessary by the board of directors or to reimburse Undivided Earnings for planned expenditures or an incurred liability.

Dr.-Appropriated Undivided Earnings	
(Acct. No. 942)	\$2,500.00
Cr.-Undivided Earnings	
(Acct. No. 940)	\$2,500.00

Detailed Transactions

Credit:

- a) As authorized by the board of directors with amounts to be established, for a specific expenditure or liability, as Appropriated Undivided Earnings and with authorized increases in this account.

Debit:

- a) As authorized by the board of directors with amounts of expenditures incurred that were included in operating expenses and resulted in a further reduction of the Appropriated Undivided Earnings Account.

945-ACCUMULATED UNREALIZED GAINS/LOSSES ON AVAILABLE-FOR-SALE SECURITIES

This account is used to record unrealized gains/losses on available-for-sale securities. When available-for-sale securities are written to fair value, an entry is made directly to the investment account with the corresponding debit/credit to this account. This account is a separate component of equity; separate from the regular reserve or undivided earnings. Nonetheless, this separate equity account should be netted against accumulated current and undivided earnings *when assessing a credit union's ability to pay dividends*. Upon disposition of the related security, the portion of this account that relates to the security disposed of is reversed with the gain or loss on disposition of the security recorded through the income statement in Account No. 420. Refer also to Section 6060. *Illustrative entries* are also shown in Section 4050.4, Account No. 743.

950-DONATED EQUITY

When a credit union receives as a gift or donation a tangible fixed asset of material value, the value of such asset should be established by a credit to this account as a separate classification of the credit union's equity. The offsetting debit should be to the appropriate asset account(s) for tangible fixed assets: e.g., furniture and equipment, building, etc.

Donated fixed assets should be recorded in the accounts based on the estimated fair market value of the assets at the date of acquisition. Depreciation of donated fixed assets should be charged to expense in each accounting period over the useful lives of the assets in the same manner as for other fixed assets.

When fixed assets donated to a credit union are not considered of a "material" value, the value of the assets debited to the appropriate fixed asset account(s) should be credited to "Other Nonoperating Income (Expense)", (Account No. 440).

Credit unions following Financial Accounting Standard (FAS) 116, "*Accounting for Contributions Received and Contribution Made*," should record all contributions received/made in income/expense when received/made. Contributions include many of the donations credit unions receive such as office space, utilities, auditing service, etc. Entries are illustrated in (b) below.

Entries in the Journal and Cash Record

Illustrative Entries

- a) When a donated fixed asset of material value is received by the credit union:

Dr.-Furniture and Equipment (Acct. No. 774)	\$2,400
Cr.-Donated Equity (Acct. No. 950)	\$2,400

- b) When the sponsor contributes for payment of utilities on the credit unions behalf:

Dr.-Utilities Expense (Acct. No. 253)	\$500
Cr.-Other Miscellaneous Operating Income (Acct. No.151)	\$500

- c) When depreciation is recorded:

Dr.-Depreciation of Furniture and Equipment (Acct. No. 266)	\$120
Cr.-Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	\$120

- d) If donated equipment is disposed of by sale: assume a donated asset valued at \$2,400 with an accumulated allowance for depreciation of \$900 is sold for cash of \$1,600. The entry is:

Dr.-Cash (Acct. No. 731)	\$1,600
Dr.-Donated Equity (Acct. No. 950)	1,500
Dr.-Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	900
Cr.-Furniture and Equipment (Acct. No. 774)	\$2,400
Cr.-Gain (Loss) on disposition of Assets (Acct. No. 430)	1,600

960-NET INCOME (LOSS)

This account is used to accumulate the various income and expense accounts into a single account to determine the net income or loss for the accounting period and to transfer the net income or loss to “Undivided Earnings”, (Account No. 940).

This account is credited with:

- a) The credit balances of all operating income, operating expense, and nonoperating income (expense) accounts (200, 300 and 400 series of accounts) when the books are closed; offsetting debits should be to these individual General Ledger accounts showing credit balances.
- b) The balance of this account, if a debit after All income and expense accounts are closed; offsetting debit should be to “Undivided Earnings”, (Account No. 940).

This account is debited with:

- a) The debit balances of all operating expense, income and nonoperating income (expense) accounts (200, 300 and 400 series of accounts) when the books are closed; offsetting credits should be to these individual General Ledger accounts showing a debit balance.
- b) The balance of this account, if a credit, after all operating and nonoperating (gain) income and expense accounts are closed; offsetting credit should be to “Undivided Earnings”, (Account No. 940).

Entries in the Journal and Cash Record

All entries affecting this account should be entered in the “Miscellaneous” columns of the Journal and Cash Record.

Posting to the General Ledger

Entries to this account are posted individually from the “Miscellaneous” columns of the Journal and Cash Record to the General Ledger. The “Explanatory Remarks” column of this account in the General Ledger should be used to indicate the nature of amounts closed into or transferred from this account.

Illustrative Entries

- a) To close the income and nonoperating gain accounts in the 100 and 400 series with credit balances:

Dr.-Interest on Loans	
(Acct. No. 111)	\$6,000
Dr.-Income from Other Investments	
(Acct. No. 129)	2,000
Dr.-Fees and Charges	
(Acct. No. 131)	65
Dr.-Gain (Loss) on Investments	
(Acct. No. 420)	100
Cr.-Net Income (Loss)	
(Acct. No. 960)	\$8,165

- b) To close the operating expenses and income accounts in the 100, 200, 300 number series with debit balances:

Dr.-Net Income (Loss)	
(Acct. No. 960)	\$6,920
Cr.-Interest Refunds	
(Acct. No. 119)	\$1,800
Cr.-Rent (Acct. No. 251)	1,200
Cr.-Communications	
(Acct. No. 261)	120
Cr.-Provision for Loan Losses	
(Acct. No. 301)	600
Cr.-NCUA Operating Fee	
(Acct. No. 321)	200
Cr.-Dividends (Acct. No. 380)	3,000

- c) To transfer net income for the period to Undivided Earnings:

Dr.-Net Income (Loss)	
(Acct. No. 960)	\$1,245
Cr.-Undivided Earnings	
(Acct. No. 940)	\$1,245

Detailed Transactions

Credit:

- a) When books are closed with the sum of the credit balances of all operating and nonoperating income and expense accounts (100, 200, 300 and 400 series of accounts).

- b) With balance of the account, if a debit, after all operating and nonoperating income and expense accounts have been closed; transfer to Undivided Earnings.

Debit:

- a) When books are closed with the sum of the debit balances of all operating and nonoperating expense and income accounts (100, 200, 300 and 400 series of accounts).

With balance of the account, if a credit, after all operating and nonoperating income and expense accounts have been closed; transfer to Undivided Earnings.